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LE/NAIROBI

DEVELOPMENTS IN INTRA-AFRICAN MONETARY AND FINANCIAL CO-OPERATION

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Developments in intra-African monetary and financial co-operation (Agenda item 5(c)

(i) Progress report on the Establishment of an African Monetary Fund (AfMF)

1. The Assembly of the Heads of State and Government of the Organization of African Unity at the Economic Summit held in Lagos, Nigeria, in April 1980, after considering the financial and monetary problems of the African countries decided, inter-alia that an African Monetary Fund (AfMF) should be established in the 1980s to assist in overcoming these problems. In view of the importance and urgency which the Heads of State and Government attached to this issue, they directed that a high-level Expert Group should be set up as soon as possible to study and recommend the modalities for the establishment of an African Monetary Fund and submit its report thereon to the Ministerial Follow-up Committee on International Trade and Finance for African Development not later than 1982.

2. In order to prepare the ground for the meeting of the high-level Expert Group, ECA organized a meeting of the representatives of the secretariats of the Organization of African Unity (OAU), the African Development Bank (ADB), the African Centre for Monetary Studies (ACMS), the African Institute for Economic Development and Planning (IDEP) and the West African Clearing House (WACH), in Addis Ababa from 5 to 7 April 1982. The ECA secretariat prepared the following documents which were reviewed at this meeting:

(a) Draft Terms of Reference on the Feasibility Study on the Establishment of an African Monetary Fund;

(b) Draft Guideline for the Feasibility Study on the Establishment of an African Monetary Fund;

(c) A Tentative Work Schedule for the Implementation of the Project of AFMF.

3. The documents were subsequently submitted to the meeting of a high-level group of experts from Ministries of Finance and Central Banks, which took place in Addis Ababa, Ethiopia from 4-7 October 1982. The meeting discussed and agreed on the modalities for the establishment of the proposed fund.

4. In view of the persistent balance of payments deficits and other problems facing most of the African countries, the Experts Group was of the opinion that the main objectives of an AfMF would be to further the socio-economic development of member States, through the promotion of financial and monetary co-operation among them. They felt that this could be achieved not only through the provision of financial assistance for balance of payments purposes, which would be additional to and not a substitute for that already provided by the IMF, but also through other forms of monetary and financial assistance.

5. As a result, the Experts Group proposed that the broad objectives of the African Monetary Fund should be, inter-alia to:

(a) assist in providing finance for balance of payments deficits on current accounts and for structural adjustment in the economies of member States to improve their balance of payments positions;

(b) promote the liberalization of trade and work towards the eventual elimination of payments restrictions among countries of the region and to facilitate the linkage of all the sub-regional clearing and payments arrangements into an African Clearing and Payments Union which may constitute a window within the AfMF; and

(c) promote co-operation in monetary policies among countries of the region and work towards the development and eventual establishment of an African Common Currency.

6. The meeting further decided that studies should be undertaken by such African institutions as ECA, OAU, ADB, ACMS and IDEP. It also adopted with some amendments, the terms of reference of the feasibility study on the establishment of the proposed AfMF guidelines for the feasibility study on its establishment and a tentative work schedule for the implementation of the Fund project.

7. An important stage in the implementation of the project has been the recruitment of a co-ordinator to co-ordinate and finalize the various technical studies relating to the feasibility study on the establishment of the AfMF. Since November 1982, efforts are continuing to recruit a suitable person who has the background and experience of working as a governor, deputy governor or executive director of a Central Bank or has held a senior position in a similar financial institution or an appropriate international financial organisation.

8. Additional efforts were made through the assistance of UNDP Resident Representatives and Governors of Central Banks of selected African countries to identify a suitable person for the purpose. With their assistance, several candidates have been identified and the secretariat is now in the process of recruiting an appropriate person for this post. The assignments for carrying out the various technical studies relating to the establishment of the AfMF have been distributed among the co-operating secretariats. 1/ Therefore, the need for the co-ordinator will arise only when the studies are completed for the purpose of co-ordinating them into a single feasibility study; hence, his services would be required only for a period of four months in 1984.

1/ In view of the difficulty in recruiting a co-ordinator, ECA convened a meeting of the co-operating secretariats during the Nineth Meeting of the ECA Conference of Ministers at which various technical studies relating to the feasibility study on the establishment of an AfMF were allocated among the co-operating secretariats.

9. A progress report on the establishment of the proposed Fund was prepared and presented to the Nineth Meeting of the ECA Conference of Ministers held in Addis Ababa from 1 to 2 May 1982 2/. In this respect, the Conference of Ministers, noted with satisfaction the progress so far achieved towards the establishment of the Fund, and expressed its appreciation for the generous financial support provided by the Algerian Government towards the implementation of this important project. The Conference of Ministers adopted a resolution3/ appealing to all African Governments to lend their political and financial support for the establishment of the proposed Fund as well as urging the African regional financial institutions such as the ADB and the ADF, also to make financial contributions towards the realisation of this objective.

10. In view of the fact that the financial support provided by Algeria for carrying out the activities relating to the feasibility study on the establishment of the proposed Fund would be completely exhausted by the end of this year, a project document was prepared for submission to the pledging conference which was held in Addis Ababa following the ECA Conference of Ministers but the response from African countries and other donors was very unsatisfactory.

11. The co-operating secretariats are now in the process of preparing desk studies on the relevant aspects of the feasibility study. Further action required would be along the following lines:

(a) Missions to be mounted to relevant institutions within and outside Africa - September - November 1983.

(b) Preparation and completion of technical studies by the respective co-operating secretariats - December 1983 to March 1984.

(c) Finalization and co-ordination of all technical studies into one unified feasibility study - April - June 1984.

(d) Convening of the second meeting of the Intergovernmental Group of Experts to review the feasibility study - September 1984.

(e) Drafting the Articles of Agreement of the AfMF, on the basis of the feasibility study as approved by the Second Expert Group Meeting - October - November 1984.

(f) Third meeting of the Intergovernmental Group of Experts to be held in conjunction with that of the Legal Experts from the respective countries of the continent to review the Articles of Agreement of the AfMF and to make appropriate recommendations to the joint Conference of Ministers of Finance, Trade and Governors of Central Banks - February 1985.

2/ Document E/ECA/Cm.9/9

3/ Resolution No. 467(XVIII).

(g) Joint Conference of the Ministers of Finance and Trade and the Governors of Central Banks to consider the reports of the Experts Group on the Articles of Agreement and to make appropriate decisions - March 1985.

(h) Conference of Plenipotentiaries to adopt and sign the Articles of Agreement - June 1985.

(i) Entering into force of the Articles of Agreement - October 1985.

(j) Ratification of the Articles of Agreement - July - October 1985.

(k) Drafting the By-laws, Rules and Regulations of the AfMF on the basis of its Articles of Agreement - October-November 1985.

(l) Countries to nominate their respective Governors who would constitute the Board of Governors of the AfMF - October 1985.

(m) Nomination of the Executive Directors of the AfMF by the Board of Governors in accordance with the Articles of Agreement - November 1985.

(n) Appointment of the Managing Director by the Board of Executive Directors and the appointment of other core staff - December 1985 - March 1986.

(o) Commencement of operations of the AfMF - May 1986.

12. The above can be achieved within this time frame provided sufficient funds are made available for the purpose. To this end, additional resources of about US$552,000 would be needed for the full implementation of the project beyond the current year as per details below:4/

Experts/Consultants	US$240,000
Administrative support	" 24,000
Travel	" 36,000
Meetings	" 170,000
Miscellaneous	18,000
13% Programme support	" 64,000
Total	US$552,000

(ii) Progress Report on the Establishment of Clearing and Payments Arrangements in Eastern and Southern African States

13. The Lagos Plan of Action stresses that the development and expansion of intra-African trade constitutes the "main stay" of the strategy for self-sustaining and self-reliant economic development. However, the present level of

4/ In this respect, attention is drawn to the ECA Conference of Ministers Resolution No. 467(XVIII) wherein the Conference of Ministers appealed to the African Governments to lend their political and financial support for the establishment of the proposed Fund.

intra-African trade is too low to generate a faster rate of economic growth. One of the basic reasons for this is the absence of effective clearing and payments arrangements which can enable the use of national currencies of member States in settlement of trade transations among themselves, thereby reducing the use of scarce foreign exchange.

14. The expansion of intra-African trade depends, to a great extent, on the existence of effective clearing and payments arrangements. In the absence of such clearing and payments arrangements, payments are generally made in foreign exchange, thereby reducing still further the countries' meagre foreign exchange resources. Furthermore, since payments are processed by one or more foreign banks situated in metropolitan countries, there are often delays and consequently additional costs in settlement of payments. The existence of a Clearing House will, therefore, assist the countries in overcoming these problems.

15. The Intergovernmental Negotiating Team (INT) for the establishment of the Preferential Trade Area (PTA) for Eastern and Southern African States and the Eastern and Southern African Subregional Committee of the Association of African Central Banks having taken into consideration the problems faced by the member States, requested ECA to assist them in preparing the draft protocol on clearing and payments arrangements for Eastern and Southern Africa. Accordingly, the ECA prepared the protocol and the relevant PTA Treaty provisions on Clearing and payments Arrangements. These documents were reviewed by the INT as well as by the Governors of the Central Banks of the subregion at various times and were adopted by them with some amendments.

16. In addition, the ECA, the International Monetary Fund, the African Centre for Monetary Studies and the West African Clearing House jointly drafted the rules and regulations of the proposed Clearing House for the subregion. These rules and regulations were discussed by the Governors of the Central Banks of the subregion at their meeting held in Kigali, Rwanda, in August 1982 and referred them to the inaugural meeting of the PTA Clearing and Payments Committee for consideration and adoption.

17. In preparation for the inaugural meeting of the PTA Clearing and Payments Committee which is the supervisory body of the Clearing House, ECA prepared the following documents:

(a) Proposals for the implementation of the relevant PTA Treaty provisions and the Protocol on Clearing and Payments Arrangements for Eastern and Southern Africa; and

(b) Terms of Reference of the Clearing and Payments Committee.

18. The above documents and the rules and regulations for the operations of the Clearing House were presented for consideration to the Inaugural Meeting of the PTA Clearing and Payments Committee which took place in Lusaka, Zambia from 1 to 4 November 1982. The Committee reviewed the documents and adopted them with some amendments.

19. With regard to the actual establishment of the Clearing House, the Committee decided that, a monetary authority of one of the member States should be designated to host the Clearing House for an interim period not exceeding two years; that the ECA secretariat should invite offers from the Monetary Authorities of the member States to host the Clearing House for the interim period; and that such offers should be made not later than 31 December 1982.

20. The report of the Committee was presented to the meetings of the Intergovernmental Commission of Experts and the PTA Council of Ministers held in Lusaka in December 1982. The Council of Ministers adopted the Committee's recommendations with an amendment of extending the time for receiving offers from the Monetary Authorities up to 31 January 1983.

21. In compliance with the decision of the PTA Council of Ministers, all the Monetary Authorities of the member States were requested to make offers to host the Clearing House for the interim period. In response, offers were received from the Central Banks of Uganda and Zimbabwe. These offers were considered by the PTA Clearing and Payments Committee at its meeting held in Mauritius from 1 to 2 August 1983 and accepted the offer from the Central Bank of Zimbabwe to host the Clearing House for the interim period of two years.

(iii) Progress Report on the Establishment of a Trade and Development Bank for Eastern and Southern African States

22. In January 1980, the Lusaka MULPOC Council of Ministers at its third meeting held in Gaborone, Botswana, decided that the ECA in close collaboration with the African Development Bank and the African Centre for Monetary Studies should undertake a feasibility study on the establishment of a subregional development bank for Eastern and Southern African States and that in so doing the ECA secretariat should look into the possibility of expanding the East African Development Bank into the required subregional bank subject to the willingness of the three East African States jointly owning the Bank. The Council of Ministers further directed that the study should be circulated to the member States of the subregion and that a meeting of the representatives of the Ministries of Finance and Central Banks be convened to consider the study.

23. In compliance with the decision of the Council of Ministers, the study was undertaken by the three organizations and presented to the joint session of the fourth meeting of the Lusaka MULPOC Council of Ministers and the second Extraordinary Conference of Ministers of Trade, Finance and Planning, held in Maseru, Kingdom of Lesotho from 18 to 21 January 1981.

24. The Ministers decided that the scope of the functions of the proposed Bank be widened to include the financing of trade in the subregion and directed the ECA to undertake the additional study on trade financing as an addendum to the main Bank study. These documents, the Ministers directed, should be submitted to a meeting of experts from Central Banks and Ministries of Finance of the subregion for their in-depth consideration.

25. Accordingly, the ECA carried out the additional study on trade financing as an addendum to the main Bank study and thereafter the documents (the main bank study and addendum) were presented to the meeting of experts from Central Banks and Ministries of Finance which was held in Addis Ababa from 12 to 16 May 1981. The experts were, however, of the view that the terms of reference on which the study was based, were inadequate and that the study was incomplete in some aspects. The experts, therefore, drew up new terms of reference on the basis of which the new technical study on the establishment of the Trade and Development Bank for Eastern and Southern African States could be undertaken. The expert group submitted their report to the Committee of Officials of the Lusaka MULPOC who adopted the new terms of reference as amended by them. They submitted their recommendations to the Resumed Session of the Englarged Conference of Ministers of Trade, Finance and Planning of Eastern and Southern African States held in Addis Ababa from 18 to 21 May 1981. The Conference of Ministers endorsed the new terms of reference and directed that a new technical study should be undertaken and submitted for their consideration at their meeting scheduled to be held in October 1981.

26. The new technical study was submitted to the third Extraordinary Conference of Ministers of Trade, Finance and Planning of Eastern and Southern African held in Addis Ababa, Ethiopia, from 12 to 15 October 1981 for consideration and decision. After an extensive discussion the Conference of Ministers decided to take note of the technical study and to refer it along with the related draft charter to a meeting of an Intergovernmetnal Team of Experts from the Ministries of Trade, Finance and Planning and Central Banks to be convened as soon as possible after the signing of the PTA Treaty for consideration and making appropriate recommendations thereon to the PTA Council of Ministers.

27. To minimize the number of meetings, it was subsequently decided that the PTA Clearing and Payments Committee which includes experts from Ministries of Trade, Finance and Planning and Central Banks should be given the opportunity to examine the study. Accordingly, the study was again presented at the Inaugural Meeting of the PTA Clearing and Payments Committee held in Lusaka, Zambia, from 1 to 4 November 1982. The Committee commended the work done on the new technical study and was of the view that the study had answered all the questions raised in respect of the first study and unanimously accepted it.

28. The Committee stated further that it recognized the need for the establishment of the Trade and Development Bank for Eastern and Southern African States. It however requested member States to send their views, if any, to the ECA Secretariat in this respect. The Committee also decided that the new technical study and related charter be presented to a meeting of an Intergovernmental Group of Experts from Ministries of Finance, Planning and Trade as well as from Central and Development Banks to be held in July 1983 or a little later to review the study and make appropriate recommendations to the PTA Council of Ministers for the establishment of the Trade and Development Bank for the subregion.

29. The report of the Committee was presented to the Intergovernmental Commission of Experts and the PTA Council of Ministers Meetings held in Lusaka, Zambia, in December 1982. The Council of Ministers endorsed the Committees' recommendations. The PTA secretariat is therefore expected to organise the

the required meeting of experts before the end of the current year to consider the study and make appropriate recommendations to the PTA Council of Ministers for the establishment of the proposed subregional Trade and Development Bank.

(iv) Progress report on the Central African Clearing House

30. During the period under review, the Central African Clearing House organised a seminar in Pointe-Noire, Republic of Congo from 1 to 5 March 1983. to acquaint member Central and Commercial Banks with the mechanisms involved in clearing arrangements. The seminar dealt in-depth with how the Clearing House could be utilized by its members without hampering its efficiency. Moreover, papers were presented by relevant organizations on the following topics:

i) the modalities of functioning and advantages of the Central African Clearing House (CACH): The paper was prepared and introduced by the Central African Clearing House;

ii) the experience of West Africa: the paper was prepared and introduced by the West African Clearing House;

iii) the role of Commercial Banks in clearing and arrangements: the paper was prepared and introduced by ECA;

iv) evaluation of the mechanisms for compensation: the paper was prepared and introduced by Commercial Banks and Chambers of Commerce.

31. Participants took advantage of the papers presented and the discussion thereon and exchanged views on the experiences of their countries in the respective subject areas. In conclusion, participants agreed that Commercial Banks, Central Banks and Chambers of Commerce should work closely with the Clearing House with a view to publicizing its activities.

(v) Progress Report on the West African Clearing House

32. The West African Clearing House organized two workshops from 23 to 25 March 1982 and from 17 to 19 November 1982 on the West African Clearing House procedures and practices. All participants were from among the operational staff of the member Central Banks of the West African Clearing House and from those of Commercial Banks. The West African Clearing House also plans to organise a number of similar seminars aiming at publicising the activities of the Clearing House and solving practical problems encountered in clearing operations in the few forthcoming years.

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CO-OPERATION IN INTRA-AFRICAN TRADE DEVELOPMENT WITH SPECIAL REFERENCE TO MULPOCS AND OTHER SUBREGIONAL GROUPINGS

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Co-operation in Intra-African Trade Development [Agenda item 6(b)]

(i) Eastern and Southern African Subregion

a) Progress Report on the Preferential Trade Area (PTA) for Eastern and Southern African States

1. The PTA Treaty was signed in December 1981, and entered into force on 30 September 1982, when the 7th member State deposited its instrument of ratification with the ECA secretariat. By mid-1983 14 member States had signed the Treaty while 10 member States ratified it. The PTA Treaty was signed by the following countries of Eastern and Southern Africa; Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Somalia, Swaziland, Uganda, Zambia and Zimbabwe, together with two neighbouring countries of the subregion, i.e. Burundi and Rwanda.

2. During the period following the signature of the PTA Treaty and the establishment of PTA, the ECA Secretariat acted as Interim Secretariat from January to December 1982 in accordance with the decision of the Summit Conference of the Heads of State and Government of Eastern and Southern African States held in Lusaka in December 1982. A full report on the activities of the PTA during that period was submitted by the ECA Executive Secretary to the second meeting of the Council of Ministers held in Lusaka, 14-15 December 1982 (Document ECA/MULPOC/Lusaka PTA/CM/11/10).

3. The Interim Secretariat drew up a Work Programme and Management Plan for the year 1982 which was approved by the first meeting of the Council of Ministers held in Lusaka from 22-25 June, 1982. In accordance with the Work Programme, the ECA in collaboration with the African Centre for monetary studies, the West African Clearing House and International Monetary Fund, drafted the rules and regulations for the operations of the PTA Clearing House. The Governors of the Central Banks of the subregion reviewed these rules and regulations at their meeting held in Kigali, Rwanda from 26 - 27 August 1982 and referred them to the inaugural meeting of the PTA Clearing and Payments Committee for consideration and adoption. The inaugural meeting of the PTA Clearing and Payments Committee held in Lusaka from 1 - 4 November 1982 adopted the above rules and regulations with some amendments.

4. The Draft Statute of the Tribunal of the PTA was also prepared and submitted to the Third Meeting of Attorneys-general or their Senior Representatives held in Lusaka from 29 March to 2 April, 1982. The adopted text was published in the first official Gazette of the PTA which also became the first enactment of the Preferential Trade Area of Eastern and Southern African States.

5. The activities of the PTA Policy Organs started with the first meeting of the PTA Intergovernmental Commission of Exports, a body created to "oversee the implementation of the provisions" of the PTA Treaty held in Lusaka from 14-19 June 1982, which was preceded the first Meeting of the PTA Council of Ministers held in Lusaka from 22-25 June 1982. The Council of Ministers approved the list of subjects for priority action during the period August-December 1982, along

with the time schedule for the Technical Committees' meetings. It also took an important decision with regard to the Protocol on Botswana, Lesotho and Swaziland, and reached an agreement on the PTA budget for the year covering January-December 1983. During the same meeting, the PTA Council of Ministers adopted Job Descriptions for the PTA Secretary-General and other core staff.

6. The PTA Technical Committees took place in Lusaka from 25 October to November 1982. The rules of procedures, the term of reference and work programmes were considered and adopted at the joint meeting of all the PTA Technical Committees.

7. The Customs and Trade Committee discussed proposals by the Interim Secretariat for the improvement of the common list in preparation for the forthcoming negotiations on commodities, as well as related customs matters. Agreements were reached on all matters considered to be of importance at that stage.

8. The Committee on Agricultural Co-operation discussed a number of issues relating, inter-alia to the establishment and management of national and subregional food security, harmonization of agricultural policies which was considered to be most urgent, establishment of a subregional maize research and distribution centre and joint efforts in the field of research and training.

9. The Committee on Industrial Co-operation discussed the following substantive issues:

1) rationalization of industrial co-operation

2) review of on-going projects and programmes and choice of priorities for the PTA

3) draft charter on multinational enterprises

4) the concepts, objectives and priorities of the Industrial Development Decade for Africa and,

5) mechanisms for promotion of industrial development.

10. The PTA Technical Sub-Committee on Transport reviewed the major issues related to multimodal transport, road transport, air transport, rail transport, inland water transport, maritime transport and ports. Bearing in mind its terms of reference and priorities, the Sub-committee adopted a number of useful recommendations for action.

11. The Technical Sub-Committee on Communications examined the substantive issues such as: harmonization of existing telecommunications tariffs, relations between PTA Transport and Communications Committee and PANAFTEL Technical Committee, harmonization of postal tariffs in the PTA countries and adopted recommendations covering all the above fields.

12. The PTA Council of Ministers held its second meeting in Lusaka, Zambia. from 14-15 December 1982, followed by the First Meeting of the Authority of Heads of State and Government of the Preferential Trade Area from 16 to 17 December 1982. His Excellency Dr. Kenneth David Kaunda was unanimously elected Chairman of the Authority for the period December 1982 to December 1983. During these two meetings of the highest PTA Policy Organs, a number of decisions essential for the functioning of the PTA were adopted.

13. Among the decisions of the First Meeting of the PTA Authority were:

(1) The appointment of Mr. S.M. Kiingi of Uganda, as Secretary-General of the Preferential Trade Area.

(2) The prescription by the PTA Authority, of the Preferential Trade Area, of the Statute of the Tribunal of the Preferential Trade area.

(3) The establishment of the procedures for the dissemination of the decisions and directions as well as those of the Council of Ministers of the Preferential Trade Area. In this respect, the Chairman of the Authority signed the following orders on behalf of the Authority.

(i) The Signification and Publication of Acts Order, 1982; and

(ii) The Signification and Publication of Decisions Order, 1982.

14. With the recruitment of the Secretary-General and the core staff, the PTA Secretariat became operational on 1 January 1983. In accordance with the PTA work plan, the Customs and Trade Committee met in Lusaka from 11 to 19 July 1983. Among the substantive issues which the meeting discussed were the finalization of the Common List to facilitate negotiations on the actual reduction of tariff and non-tariff barriers to trade, the preparation for the product-by-product negotiations and arrangements for the implementation of the protocol on Customs Co-operation and the relevant provisions of the Treaty.

15. The Committee finalized at its level the Common List of commodities to be traded among member States after having incorporated new information and additional items to the Common List and classified the commodities into six groups under the CCCN tariff headings. Further, the Committee agreed that at this stage there was no need for negotiation on the reduction of tariff and non-tariff barriers on a product-by product basis. Therefore, the commodities appearing on the Common List will automatically be subject to tariff reduction by percentages contained in Article 4 para. 2 of the Protocol on Reduction and Elimination of Trade Barriers provided they satisfy the requirements set out by the Protocol on Rules of Origin.

16. Concerning the arrangements for the implementation of the Protocol on Customs co-operation, the Committee referred it to a meeting of a specizlized sub-committee, which will be convened at an appropriate date.

b) Progress Report on the Establishment of an Agricultural Commodity Exchange for Eastern and Southern Africa

17. The ECA Conference of Ministers at its fifth meeting held at Rabat in 1979 adopted a decision on the establishment of agricultural and non-agricultural commodity exchanges in Africa. Subsequently, the African Heads of State and Government attached great importance to this project as part of the Lagos Plan of Action.

18. In accordance with the above decisions, the ECA secretariat was mandated by the Lusaka-based MULPOC to carry out a feasibility study on the establishment of an agricultural commodity exchange for Eastern and Southern Africa.

19. As a first step, detailed terms of reference for the above feasibility study were prepared. It was decided that the feasibility study should cover all the countries of the subregion and involve an assessment of the general economic features of the subregion with particular reference to the existing and potential level of production and trade in agricultural commodities. It was also found necessary to assess the need for establishing the proposed agricutural commodity exchange and to determine the most practical approach and strategy to be followed in its establishment.

20. Consultants were recruited to undertake the required desk studies. Thereafter, further field missions were undertaken with a view to collecting data and information as well as to holding consultation with existing institutions inside and outside Africa.

21. Based on the above desk study and field missions, a complete technical report on the establishment of the proposed commodity exchange was finalized and submitted for consideration by the fifth meeting of the Lusaka-based MULPOC Council of Ministers which took place in Lusaka, Zambia from 23 - 25 March 1982. The Council of Ministers took note of the feasibility study and agreed that the findings and recommendations of the study should be scrutinized by an inter-governmental group of experts and that the views of the experts should be submitted to the sixth meeting of the Council of Ministers for its consideration and appropriate decision. The MULPOC Council of Ministers endorsed the recommendations of the study and taking into account the highly technical nature of the subject matter, requested ECA to prepare a further in-depth study on the operational aspects of commodity exchanges and report back to the Council of Ministers at their next meeting which is tentatively scheduled to be held in Nairobi, Kenya sometime during the first half of 1984.

22. In compliance with the decisions of the Council of Ministers, preparations are currently under way for undertaking all the required studies related to the operational aspects of commodity exchanges. These technical studies are intended to be submitted to the forthcoming meeting of the Lusaka-based MULPOC Council of Ministers scheduled to take place in Nairobi, Kenya as indicated above.

23. One of the major obstacles hampering the full implementation of this project is the lack of resources. Existing resources available under the Algerian Grant will be exhausted by the end of this year. Additional resources would be required to convene the meetings of experts and for preparing reports on the implementation of the decisions of the Council of Ministers. It is also necessary to organize seminars and workshops for managers and senior staffs as well as private and public users of the exchange in order to acquaint them with the technical and various other aspects of the working of the commodity exchange.

(ii) Central African Subregion

24. At their summit conference held in Libreville in December 1981, the Heads of State and Government of the Central African Customs and Economic Union (UDEAC) together with those of Chad, Equatorial Guinea, Sao Tome and Principe, Burundi, Rwanda, Zaire and Angola committed themselves to the creation of an Economic Community of Central African States in a solemn Declaration known as the "Libreville Declaration". To this end, they charged their Ministers responsible for economic development to meet and discuss the modalities for the establishment of the proposed Economic Community, and entrusted jointly to ECA and OAU the task of assisting them in carrying out the necessary negotiations for this purpose.

25. Accordingly, the joint ECA/OAU Secretariat prepared a draft Treaty and a number of Protocols including those on rules of origin, re-export of goods within the Community, transit trade and transit facilities, compensation for loss of revenue, clearing and payments arrangements, customs co-operation, harmonization of trade documents and procedures, co-operation in agricultural development, co-operation in industrial development, transport and communications, natural resources, energy and science and technology etc.

26. At its first meeting, held in Libreville in February 1982, the "Ad Hoc Committee of Experts" set up to conduct negotiations on the creation of the proposed Economic Community of Central African States, took note of the draft Treaty and Protocols, discussed modalities of the negotiations but postponed substantive discussion on them since a number of delegations did not receive full instructions from their Governments. In addition, the Ad Hoc Committee requested the joint ECA/OAU Secretariat to prepare individual economic profiles of Central African states and a synthesis of the economic and social conditions of these countries so as to enhance their understanding and knowledge of the economy of the other member countries as a means of facilitating the smooth progress of negotiations. The studies were completed and distributed to the countries concerned as requested.

27. At its second meeting held in Libreville in May 1982, the Ad Hoc Committee of Experts again requested ECA to study comprehensively the implications and impact of the integration arrangements as stipulated in the proposed ECCAS Treaty on the economy of each prospective member State - country by country and sector by sector - as well as on the economy of the subregion as a whole. The study outlined the potential benefits that each country could derive from participation in the co-operative arrangements in terms of production capability, expanded market, enhanced purchasing power and increased revenue. It recommended, among other things, that co-operation arrangements be extended to as many sectors as possible aso as to maximize the benefits therefrom.

28. At its second meeting, held in Libreville in November 1982, the Council of Ministers of Central African States adopted twelve Protocols and the Treaty. On the basis of observations and comments made by the negotiators at previous meetings, the Joint ECA/OAU Secretariat revised the drafting of the following Protocols for consideration at its next meeting: the clearing and payments arrangements, compensation fund for loss of revenue, simplication and harmonization of trade documents and procedures, non-tariff barriers to trade and the statute of the Co-operation and Development Fund.

29. At its third meeting held in Libreville in May 1983, the Council of Ministers of Central African States, which was preceded by the fourth meeting of the "Ad Hoc Committee of Experts" concluded negotiations on the following Protocols: Compensation Fund for loss of revenue; free movement of goods and persons; clearing house; simplification and harmonization of trade documents and procedures; non-tariff barriers to trade; and the special situation of land-locked, islands, partly islands, partly land-locked and/or belonging to the category of Least Developed Countries (LDCs). The Council of Ministers also resolved outstanding issues relating to:

1) The elimination or maintenance of fiscal duties at customs union stage of the Community. Taking into account the importance of these duties for national budgets, the meeting decided that they will continue to subsist beyond the customs union stage.

2) Percentage of equity share holding for originating products. Although the need was recognized for deriving maximum benefit from investments in the subregion, the meeting decided to adopt 30% as a first step.

3) Sanctions in case of failure to comply with the text of the Treaty. It has been decided that the Conference of Heads of State and Government will study the matter and take appropriate measures on a case-by-case basis.

4) Modalities for the establishment of the proposed Economic Community. After a long discussions, the Council decided that the Community would be established progressively over a period of 12 years subdivided into three phases of 4 years each as follows:

   - phase I; A stand-still period for the maintenance of fiscal and customs duties and for the preparation for reduction of tariff and non-tariff barriers to trade.

   - phase II: Creation of a Free Trade Area.

   - phase III: Establishment of a Customs Union (including the adoption of a common external tariff).

30. The Council of Ministers decided also on the creation of an Ad Hoc Committee of Attorneys-General with the mandate of reviewing and polishing the texts of the Treaty and Protocols. The Ad Hoc Committee met in Addis Ababa and completed its work at the end of July 1983. It is expected that the Treaty establishing the Economic Community of Central African States will be signed in Libreville in October 1983.

(iii) West African Subregion

Progress Report on the Harmonization of Trade Liberalization Programmes of Economic Community of West African States (ECOWAS), Communanti Economique des Etats de d'Afrique de l'Oust (CEAO) and the Mano River Union, March 1982 to October 1983

31. Negotiations on the trade liberalization programmes of ECOWAS, CEAO/MRU continued during the period under review and some achievements were made. For instance, the fifth co-ordinating meeting of experts and fourth meeting of Chief Executives of the three organizations were held in 1982, and the fifth meeting of Chief Executives of the three organizations was held in March 1983.

32. During the fifth Co-ordinating Meeting of Experts, which took place in Lome, Togo, from 12 - 25 July 1982, the following decisions were taken.

(i) It was unanimously agreed that the establishment of a customs union should be the long-term objective of the subregion. Since this system involves total tariff liberalization in the long-run, the meeting pointed out the inadequacies of the proposed compensation for customs revenue losses, especially loss of revenue in respect of the less developed members of the subregion, and suggested supporting measures which should be implemented to rectify economic disparities existing among countries of the subregion.

Among the supporting measures recommended were:

a) Formulation and implementation of a coherent industrial development policy for the region, which would take into consideration the needs of the industrially less advanced countries of the subregion.

b) A solution to the excessive dependence of member States on customs revenue for financing their national budgets; and

c) Formulation and adoption of measures to alleviate balance of payments difficulties of member States and to solve the problem of their external indebtedness.

(ii) The proposal of three alternative approaches for the inclusion of the indigenous capital ownership requirement as one of the conditions for the definition of products originating in member States.

(iii) Two alternative trade liberalization systems were proposed for consideration by the meeting of Chief Executives, in the light of the agreed objectives of a custom union.

(iv) A recommendation to the effect that a part of the budget for the compensation of loss of revenue resulting from intra-area trade be retained for the development of the less developed members of the subregion.

33. The fourth meeting of chief executives of ECOWAS, CEAO and MRU, which took place in Cotonou, Republic of Benin, from to 25 - 26 October 1982, discussed among other things, the report of Experts and accepted their recommendations on the objectives of the subregional economic integration system and agreed on the implementation of the supporting measures for trade liberalization. Moreover, the meeting adopted the indigenous capital ownership requirement as part of the originating conditions for industrial products as follows:

May 1983 indigenous capital ownership requirement will be 20%

May 1986 indigenous capital ownership requirement will be 40%

May 1989 indigenous capital ownership requirement will be 51%

34. The meeting also agreed to set up a team of experts from the three organizations, to undertake a study on the establishment of a uniform trade liberalization system for the subregion.

35. The fifth meeting of the Chief Executives of CEAO, ECOWAS and MRU took place in Ouagadougou, Upper Volta, in March 1983 and considered the report of the fifth meeting of experts and adopted in with some amendments. It was agreed to submit their findings to their respective policy organs and meet at a later date on the matter.

(iv) North African Subregion

36. In accordance with the decision of the meeting of the Council of Plenipotentiaries of North African MULPOC held in 1981, a study on the promotion of intra-subregional trade was prepared and submitted to the Committee of Experts which met in December 1981. The main recommendations of the study dealt with the removal of trade barriers and the extension of North African trade to the other four African subregions.

37. The study was reviewed at the second meeting of the Council of Plenipotentiaries which was held in Tangiers in March 1983. The meeting noted that one of the major obstacles to trade was the lack of products to be traded, mainly in the field of agricultrural products such as cereals, oilseeds and meat. The meeting also was of the view that transport facilities constituted a major obstacle. The meeting therefore, recommended that the development of intra-subregional trade should be given priority over inter-subregional trade and that a further study and analysis based on previous studies should be undertaken with a view to identifying concrete proposals for co-operation in specific sectors and products.

38. The Committee of Experts of the North African MULPOC held in Tangiers from 17 to 20 March 1983 took note of the study and added that lack of export financing schemes, along with customs barriers constitute serious obstacles to the expansion of the intra-subregional trade. The meeting observed also that it was necessary to prepare a comprehensive list of products likely to be traded and that bilateral arrangements should be worked out to promote intra-subregional trade.

39. The Council of Plenipotentiaries of the North African subregion endorsed the recommendations of the Committee of Experts at its meeting held from 21 to 22 March 1983. The meeting further recommended the exploration of long and medium-term possibilities of developing through joint bilateral or multilateral ventures, the potential in agricultural products to be identified in Sudan with specific reference to animal products and by-products.

40. Furthermore, recognizing the importance of the need for developing Afro-Arab Co-operation, the Council of Plenipotentiaries of the North African Subregion endorsed fully the project on the development and expansion of Afro-Arab Co-operation in trade and finance and urged Governments and UNDP to provide financial and other support to the project.

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REPORT ON THE PROJECT ON THE DEVELOPMENT OF INTRA-AFRICAN TRADE AND MONETARY AND FINANCIAL CO-OPERATION
EXECUTIVE SUMMARY

I. Background

1. A significant share of the total foreign trade of the African continent, representing in most cases over 80 per cent in imports as well as in exports, is directed towards developed market economies. In contrast, intra-African trade, already at a very low level, has been declining. In 1975, the share of recorded intra-African trade amounted to 5-6 per cent of Africa's total external trade but decreased to 4.2 per cent in 1978. The figure compares unfavourably with intra-Latin American trade which, during the same year, was around 17 per cent and with intra-Eastern and Southern Asian trade (excluding Japan) which exceeded 20 per cent in 1978. No significant improvement has occurred since then.

2. There are a number of factors which hamper the development of intra-African trade. These include, among other things (a) the lack of clearly defined intra-African trade policy; (b) lack or inadequacy of transport and communication systems; (c) lack or low complementarity between the countries' production, consumption, distribution and marketing structures; (d) tariff and non-tariff barriers against goods from other African countries (e) absence or inadequacy of appropriate clearing and payments arrangements; and (f) absence of insufficiency of flow of trade information.

3. During the past few years, an increasing number of African countries have expressed their concern over this situation in various international fora. The ECA Conference of Ministers adopted various resolutions (Resolutions 222B, 262 (iii) etc.) and at its fifth meeting held in Rabat, Morocco, in March 1979, devoted considerable time to the economic problems of Africa. Discussions were based on the reports of the Monrovia colloquium on the prospects of development and economic growth in Africa up to the year 2000 and of the Addis Ababa Seminar on Alternative Patterns of Development and Life Style for the African Region. At its sixteenth session held in Monrovia, Liberia in 1979, the assembly of Heads of State and Government of the OAU adopted the Monrovia Declaration of Commitment on guidelines and measures for national and collective self-reliance for the establishment of New International Economic Order. The fundamental objective of the Monrovia Strategy and Declaration of Commitment is the establishment of self-sustaining development and economic growth based on collective self-reliance. In examining the question of a new African strategy in the field of international trade and finance as part of the overall development strategy for Africa in the Third Development Decade, the OAU/ECA Conference of Ministers of trade came out with a Plan of Action for the implementation of the Monrovia Strategy at its meeting held in Addis Ababa in March 1980. The second extraordinary assembly of Heads of State and Government of the OAU held in Lagos, Nigeria in April 1980 and devoted to the economic problems of Africa adopted the Lagos Plan of Action and the Final Act of Lagos.

II. Objectives of the Project

4. It is against this background that the project on the development of intra-African trade was initiated in June 1975 to cover a period of three and a half years. Despite its modest budget, the project achieved signficant progress

towards its objectives. In view of new needs and developments that have emerged in international trade, project activities during the second phase were widened to cover monetary and financial co-operation including export credit financing and export credit insurance. The second phase of the project on the development of intra-African trade and monetary and financial co-operation covered a period of three years (1979-1981) and was extended later for a further period of one year ending in December 1982.

5. The fundamental objective of the project was to assist African countries in the establishment of self-sustaining development and economic growth based on collective self-reliance through the expansion of intra-African trade and financial co-operation. The latter was expected to play a catalytic role in this respect. The immediate objectives of the project were, inter alia:

(i) To identify and analyse problems and obstacles which hamper the development of intra-African trade;

(ii) To formulate and develop appropriate policies and measures in the field of trade and monetary and financial co-operation designed to foster intra-African trade;

(iii) To promote the collection and dissemination of information on intra-African trade and economic co-operation;

(iv) To provide various types of training such as courses, symposia, seminars and workshops required for the promotion of intra-African trade and financial co-operation.

6. Most of the problems and obstacles encountered in the development of intra-African trade are of a structural nature. Their solutions would involve drastic changes in policy matters, production structures and trade and consumption patterns. Therefore, the results and impact of this project on intra-African trade development must of necessity be long-term in nature. However, during its second phase, substantial progress has been made towards achievement of its objectives. One of the lessons learned from implementation of the project is that intra-African trade development cannot be tackled in isolation from over-all African economic development. In fact, intra-African trade should constitute the basic foundation of African participation in world trade and economic relations. Bearing this necessity in mind, the project adopted a global approach which considered the development of intra-African trade not as a single factor but as a major component of African development in general. Consequently, the project placed great emphasis on building up mechanisms and institutions designed to foster intra-African trade and financial co-operation at subregional as well as regional levels. Some of the major activities in this respect are summarized in the paragraphs below, while a detailed account of the activities undertaken during the second phase of the project is contained in the final report of phase II of the project.[1/]

1/ Report on the project on the development of intra-African trade and monetary and financial co-operation, Doc.E/ECA/TRADE/2.

III. Assistance to subregions

(1) Eastern and Southern African Subregion

7. When the East African Economic Community collapsed in February 1977, there was no viable economic grouping in Eastern and Southern African Subregion. This left a deep yawning gap in the economic relations which was deeply felt by the countries of the subregion. Indeed, their willingness and aspirations for an economic integration subsisted.

8. At the MULPOC meeting held in Lusaka 1978, the Council of Ministers of the subregion committed themselves in a solemn declaration known since then as the Lusaka Declaration of Intent and Commitment to the creation of a Preferential Trade Area for Eastern and Southern Africa (PTA), as a first step towards a Common Market and an Economic Community.

9. Since then, the project personnel has spared no effort to assist these countries to establish the PTA especially in drafting relevant protocols and the Treaty, which includes provisions for co-operation not only in the field of trade and finance but also in the productive sectors such as industry and agriculture. These protocols are intended to facilitate the upgrading of the PTA into a higher economic co-operation and integration system.

10. Mainly as a result of the assistance from the project, the Treaty establishing the PTA for ESAS was signed in Lusaka in December 1981. The Authority of the PTA requested ECA to assume the responsibility of the interim Secretariat of the PTA, and ECA Secretariat relied heavily on the project staff in discharging this function from January to December 1982. The PTA secretariat became operational as of January 1983, after the recruitment of its core staff.

(2) Central African Subregion

11. The Central African subregion is composed of two MULPOCs. The first one, located in Yaoundé, covers 7 countries: Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon and Sao Tomé and Principe. The second was located in Gisenyi covers 3 countries: Burndi, Rwanda and Zaire. Within this subregion, there are two economic groupings: The Central African Customs and Economic Union (UDEAC) which is made up of Cameroon, Central African Republic, Congo and Gabon, and the Communauté Economique des Pays des Grands Lacs (CEPGL) made up of Burundi, Rwanda and Zaire. Because of various obstacles, these economic groupings have made little progress towards economic integration during the last decade.

12. Consequently, the Heads of State and Government of UDEAC requested ECA to undertake an evaluation of UDEAC performance since its inception and recommend ways and means of strengthening economic co-operation in Central Africa. The evaluation, part of which was carried out by the project personnel, recommended among other things, the enlargement of economic co-operation. This recommendation was adopted by the Head of State and Government of Central Africa at their summit held in December 1981 in Libreville, who committed themselves in a solemn declaration (known as the Libreville Declaration), to create an Economic Community of Central African States. Based on the experience gained in the establishment of

the PTA project staff took in active part in the establishment of the Central African Economic Community. For this purpose, Treaty and Protocols were drafted and studies undertaken with a view to facilitating the negotiations thereon.

13. It is worth mentioning that at the end of 1982, negotiations were concluded on the draft Treaty and 12 protocols, and 6 additional protocols were adopted at the Ministerial meeting held in May 1983. The Treaty establishing the Economic Community was signed in October 1983, in Libreville, Gabon, by ten Heads of States and Government of Central Africa.

(3) West African Subregion

14. The Treaty establishing the Economic Community of West African States (ECOWAS) was signed in 1976, but trade liberalization schemes could not enter into force, partly because of institutional problems such as the existence of trade liberalization schemes already applied by smaller economic groupings within ECOWAS whose activities needed to be harmonized. The first task of the project, therefore, was to assist ECOWAS in bringing about harmonization of the trade liberalization programmes of the existing economic groupings: ECOWAS, Communauté Economique des Etats de l'Afrique de l'Ouest (CEAO) and Mano River Union (MRU). The trade liberalization issue in ECOWAS covers a number of vital areas of economic integration, including rules of origin, tariff reduction, trade documents and compensation mechnaisms.

15. After a number of negotiating meetings, the three organizations agreed to the harmonization of trade documents and procedures, statistical nomenclature and standards and criteria for originating products. Nevertheless, the following issues remained to be tackled which require the type of expertise provided by the project personnel.

(a) Elaboration of capital ownership requirement as part of meeting the product originating conditions;

(b) Establishment of uniform tariff liberalization scheme;

(c) Establishment of compensation mechanisms;

(d) Elaboration of concrete supporting measures for trade liberalization in favour of the less industrially advanced member States.

(4) North African Subregion

16. In the North Africa subregion, the movement towards co-operation had been somewhat slower than in other areas. Thus, bearing this in mind, the project personnel serviced a number of meetings of officials and councils of plenipotentiaries of the North African MULPOC and prepared studies for the promotion of trade and monetary co-operation in that subregion. Although these meetings recognized the need for expanding and fostering economic co-operation, the prevailing political situation made it harder for ECA to assist the countries to take the necessary actions towards economic integration. Consequently ECA has

developed a new approach : emphasis would be put on bilateral as well as inter-subregional activities rather than subregional ones, especially in the field of trade. Furthermore, the concept of co-operation in North Africa will be enlarged to cover the developement of afro-arab co-operation in the field of trade and finance. It is to be mentioned that this approach has been warmly supported by the countries of the subregion.

IV. Advisory services and missions

17. As part of ECA's assistance to member countries in the field of trade and finance, the project staff undertook a number of missions and advisory services to African countries with a view to advising Governments on specific areas. Part of the missions' objectives were, to give clarifications on specific issues of interest to the countries relating to trade, finance and integration schemes, or to collecting relevant data and information on intra-African trade and financial co-operation.

V Research and studies

(1) Subregional studies

18. In order to provide the appropriate technical backstopping and advisory services to the member countries and the subregional institutions, research and studies constituted an integral part of the project activities. To this end, many studies and documents have been prepared by the project with a view on the one hand to helping negotiations on the establishment and/or strengthening of subregional economic groupings and on the other hand to setting up appropriate supporting institutuions.

(2) Regional Studies

19. The main studies undertaken by the project at this level related either to the identification of products likely to be traded among African countries or to the establishment and/or strengthening of regional institutions oriented towards the development of intra-African trade and financial co-operation. They are detailed in Terminal Report Doc. No.E/ECA/TRADE/2.

VI. Seminars and Training

20. The development of technical and managerial skills and competence to deal with specialized functions required to promote intra-African trade was also given high priority in the implementation of this project. To this end, the Project personnel participated in different training programmes and seminars. Some of the training activities were directly financed by the project.

VII Summary of the Major Findings of the Project

21. The long-term objectives of the project on intra-African trade and financial and monetary co-operation were assistance to African countries in promoting self-sustaining growth and diversification of the African production patterns on a co-operative basis as a means to gradually create the African Common Market envisaged under the Lagos Plan of Action. To this end, the project's achievements have been largely in three broad areas. Firstly, specific economic groupings have benefited from technical expertise provided under the project to advance aspects of co-operation at subregional level. Secondly, concrete steps have been taken or initiated towards the creation of an African Common Market envisaged under the Lagos Plan of Action. Thirdly, there has been an appreciable awareness and conviction among African countries of the need to promote intra-African trade as a means of attaining collective self-reliance within the framework of the South-South co-operation. Through the project, the ECA secretariat as well as member countries have learned a great deal about the structures, problems and prospects of developing intra-African trade as a means of enhancing the socio-economic growth of the continent. In some cases, the project confirmed earlier findings about the low level of such trade. For instance, the project found out that the level of about 4 to 5 per cent of intra-African trade in total African trade is too low to sustain meaningful growth rates. This compares unfavourably with about 17 per cent of intra-Latin American trade and about 20 per cent of intra-Eastern and Southern Asia Trade and indicates the degree of dependence of the African economies towards outside world and mainly towards developed market economies. At the same time, it shows the low level of economic integration of the continent.

22. At policy levels, the project found serious issues some of which are of historical origin, while some have structural and institutional causes. Among these factors, the following seem to be the important ones

(a) Most African countries did not bring about radical changes in the structure of production, trade and consumption patterns of their economies inherited from the colonial era and therefore did not adapt themselves to the basic needs of the masses of African population. Thus, they are still producing what they do not consume and consuming what they do not produce;

(b) The lack and/or inefficiency of trade and financial institutions at national as well as at subregional and regional levels have severely hampered economic development. This was especially evident in connexion with intra-African trade;

(c) The lack of trained and skilled manpower specifically in the field of intra-African trade not obly affected the national exploitation of raw materials and other resources in the continent; but also delayed the economic integration process;

(d) The lack of adequate and reliable information on intra-African trade combined with an indiscriminately high import tariff has led to the balkanization of African markets and the inefficiency of production units. The project found that African traders know more about overseas market conditions than they did on neighbouring countries;

(c) Many African countries have no definite policy on the development and expansion of intra-African trade and monetary co-operation. As a result, in terms of economic development planning at the national level, no definite policy was adopted with a view to nationally exploiting the possibilities of development offered by intra-African trade which was accorded low priority in almost all countries. Unless these problems are tackled and solved in an appropriate manner, the expansion of intra-African trade will remain limited. However, the solution to these problems will require drastic changes in economic planning and policy, as well as in attitudes towards economic development in general, which cannot take place over-night.

23. Despite these shortcomings it is rewarding for the project to note that radical changes in the attitude of African countries towards intra-African trade are taking place. As a result of this project, more and more African countries have realised the importance of economic co-operation and integration as a means of promoting over-all economic performance at national as well as at subregional and regional levels. The project therefore achieved its major goal of assisting African ocountries in the reformulation of their trade and economic policy and is developing more effective instruments conducive to the development of intra-African trade. The setting up of appropriate subregional and regional institutions will undoubtedly pave the way for the establishment of an African Common Market. However, further assistance will be required for the attainment of this objective.

VIII. The Need for Further Financial Support

24. As can be seen from the preceding summary, the project on the development of intra-African trade and monetary and financial co-operation has achieved significant results; among these the establishment of the Preferential Trade Area for Eastern and Southern African States can be singled out as a formidable success. The project also assisted the Economic Community of Central African States (ECCAS); in defining the Treaty for establishing the Community, Missions were also sent to the Economic Community of the Great Lakes (CEPGL) and the Central African Customs and Economic Union (UDEAC) aimed at identifying special needs and problems facing these countries in the field of trade especially intra-African trade. Unfortunately, despite these major achievements, the project has had to be discontinued due to lack of financial resources. Moreover, the cessation of ECA support in this field would have far-reaching adverse effects on the attainment of collective self-reliance through intra-African trade.

25. The project concludes that additional financial support is desperately needed to continue to implement the following objectives and priorities of the member States which also constitute the main thrust of ECA's activities in the field of trade:

(a) The formulation and implementation of appropriate policies in the field of trade promotion and trade policy so as to enable the African countries to establish and strengthen economic integration and trade facilitation schemes taking full cognizance of the special needs of each country;

(b) The re-orientation of external trade of the existing subregional economic groupings by undertaking market research; the introduction of modern marketing techniques; and the establishment of appropriate marketing organizations on subregional and regional basis;

(c) The preparation for and effective participation in international negotiations;

(d) The creation of appropriate and effective institutional framework for the promotion of intra-African trade, including the development and strengthening of export credit financing and export credit insurance schemes, commodity exchanges, payments and clearing houses, an African Monetary Fund, and an African Common Market;

(e) The collection and diffusion of information on intra-African trade and economic co-operation within the region, including specialized training required for the promotion of intra-African trade such as courses, symposia, seminars, workshops and meetings.

26. These objectives and priorities have been endorsed by the various decisions and resolutions of the ECA Conference of Ministers. More significantly, the project received the blessing of the Heads of State and Government of the Organization of African Unity through the Monrovia Strategy for Economic Development of Africa and the Associated Monrovia Declaration of Commitment on Guidelines and Measures for National and Collective Self-reliance. Subsequently, the Extraordinary Conference of African Heads of State and Government, which met in Lagos in April 1980, placed high priority through the Lagos Plan of Action on the development of intra-African trade.

27. In the light of these objectives, further assistance will be required in the following major areas not covered by activities of other United Nations organizations:

(1) Eastern and Southern Africa Subregion

28. Although the PTA Secretariat has been established and recently became operational, it is insufficiently staffed. In fact, one of the project advisors has been seconded to PTA to act as Director of the Customs, Trade and Finance Division till the Secretariat recruits a suitable candidate from within the subregion. Therefore, further assistance will be required from ECA, especially in the following areas:

- Product-by-product negotiations of the products of the Common List;
- Implementation of the protocols on Customs co-operation and Rules of origin;
- Actual establishment and strengthening of the PTA Clearing House;
- Actual establishment and stengthening of the Trade and Development Bank;
- Resources required: US$ 100,000.-

(2) Central African Subregion

29. The Treaty establishing ECCAS will be implemented in different phases including a Preferential Trade Area, which will evolve into a customs union and a Common Market. When established, this economic grouping will require further assistance to strengthen economic co-operation in the subregion, mainly in the fields of:

- Customs co-operation (tariff reduction, harmonization of customs nomenclatures and procedures, establishment of common external tariff);
- Identification of products to be traded and negotiations thereon;
- Establishment and strengthening of subregional clearing arrangements;
- Establishment and strengthening of the Co-operation and Development Fund.

30. Until the Community reaches the stage achieved by existing economic groupings, UDEAC and CEPGL will continue to exist and will need further assistance in the line recommended by the ECA evaluation report.

Resources required : US$ 200,000.-

(3) West African Subregion

31. The harmonization of trade liberalization programming of ECOWAS/CEAO/MRU will continue and further assistance will be required for the implementation of the agreed programmes and time-table for conducting studies on border trade and its implications on the economics of the countries of the subregion and for strengthening of the West African Clearing House. Furthermore, ECA will have to establish a subregional trade and development institution.

Resources required : US$ 175,000.-

(4) Establishment of an African Monetary Fund (AMF)

32. The next stage in the implementation of this project is the recruitment of a co-ordinator for the study on the establishment of the Fund.

(a) Missions by ECA experts and representatives of the African institutions undertaking the feasibility study are now to be undertaken by relevant institutions both outside and within Africa to collect necessary data and information for the purpose of the study. Preprations of the technical studies on the establishment of the Fund would start after the completion of the various missions;

(b) A second meeting of the Intergovernmental Group of Experts would be convened to review the feasibility study soon after its finalization. The African Monetary Fund Articles of Agreement would then be drafted on the basis of the feasibility study.

(c) A third meeting of the Intergovernmental Group of Experts and that of legal experts would later be convened to review the Articles of Agreement. Soon after the third meeting of the expert group a joint conference of Ministers of Finance, Trade and Central Bank Governors would be convened to consider the AfTF Articles of Agreement and make appropriate decisions thereon regarding the establishment of the Fund. A Conference of Plenipotentiaries would also thereafter be convened to sign the Articles of Agreement of the AfTF. Soon after that a period would be allowed for ratification of the Articles of Agreement.

(d) The next step would be entering into force of the Agreement, followed by the nomination of Governors by members, the election of Executive Directors appointments of a President and core staff of the Fund and the commencement of Fund operations.

Resources required: US$ 4000000.

(5) Establishment of National, Subregional and Regional Export Credit Financing and Export Credit Insurance Schemes

33. Feasibility studies would have to be undertaken with regard to the establishment of national export credit financing and export credit insurance schemes where they do not exist. At the subregional level studies need to be carried out in establishing such schemes within the framework of the proposed subregional trade in establishing such schemes within the framework of the proposed subregional trade and development banks. Furthermore, a study also has to be undertaken with regard to the establishment of a regional export financing scheme either as a window in the African Development Bank or as a separate entity. The main objectives are:

- To assist exporters to get bank financing (both pre-shipment and post-shipment) according to their needs, at a reasonable cost and on time;

- To provide cover to an exporter against the risks that he may not receive payment for his export either because of commercial risk of the buyer not making the payment or because of the buyer's country which would result in non-remittance of payment;

- To provide refinancing for export credits at national, subregional levels;

- To support and supplement the activities of the national and subregional export financing mechanisms.

Resources required : US$ 150 000

(C) Establishment of an African Mutual Guarantee and Solidarity Fund

34. According to the Lagos Plan of Action an African Mutual Guarantee and solidarity Fund should be established. For this purpose a feasibility study and other works would have to be carried out. The main objectives of the Fund, which would function as a window of the African Monetary Fund, would be:

- To promote economic development and integration of the region; to assist in preparing specific projects in the economic field and to obtain assistance from donor organizations for their implementation;

- To provide guarantees to donor organizations against finance obtained from them for investments in the member States; and

- To encourage intra-African trade and financial co-operation.

Resources required: US$ 100,000.-

(/) Establishment of African Commodities Exchanges

35. According to the Lagos Plan of Action, the establishment of African commodity exchanges is accorded high priority by the African Heads of State and Government.

(a) The study on this subject aims at removing the major obstacles represented by the inadequacy of marketing infromation on the availability of commodities, on prices and on supply and demand for specific key commodities to be traded within and between the countries of the region. It also aims at establishing one of the important subsidiary bodies of subregional trade promotion institutions with the view ultimately to linking the latter into an all African Common Market;

(b) Results of an initial study are now being evaluated. The proposal contained in this study has attracted considerable interest of African Governments and its effective implementation would enhance intra-African trade in primary commodities and raw materials required for manufacturing and industrialization programmes of the continent. In addition to resources for completing this study, future assistance is required for:

- Provision of technical assistance and advisory services to member states in the actual establishment of the proposed commodity exchanges;

- Provision of technical back-stopping in negotiations;

- Drafting agreements establishing the exchanges, their rules and regulations, contract specifications including articles establishing commodity associations;

- Provision of training and workshops for managers and private and public users on technical and operational aspects of the commodity exchanges.

Resources required : US$ 290 000.

(a.) Report on Import Management and Marketing Techniques with Reference to African Countries

36. In accordance with the programme of work and priorities for 1984-1985, it is planned to organize workshops, seminars and in service training in trade promotion, import management and marketing techniques. The immediate objective of the above study is to prepare background documents for the workshops and seminars with the view to encouraging effective participation during the workshop and seminars. The broad areas that will be dealt with in the study include techniques of import management with particular reference to the identification, organization and control of materials inputs, cost saving techniques and planning of imports.

Resources required: US$60 000

(9) Assistance to the Proposed Federation of African Chambers of Commerce

37. Activities identified in this area include:

- Assistance for the establishment of the proposed Federation of African Chambers of Commerce;
- Assistance for the creation and support of subregional Federation of Chambers of Commerce;
- Organization of training activities in the field of trade promotion, trade information, export; marketing and market research;
- Assistance in the establishment of a trade directory as part of the trade information systems.

Resources required: US$ 100 000

(10) Development and expansion of Trade and Financial Co-operation in North Africa

38. This involves further activities including:

- Identification of existing and potentials products to be traded between North African countries.
- Identification and analysis of barriers and obstacles to the development and expansion of trade, including tariff and non-tariff barriers, and recommendations on the removal of such barriers.

- Support and/or establishment of mechanisms and supporting instutions oriented towards the development of such trade, as necessary.

  Resources required: US$ 200 000

(11.) Inter-Subregional Economic Co-operation

39. In preparation for the establishment of an African Common Market, there is a need to start and amplify work on economic linkages between two or more subregions.

- Identification of existing and potential products for trade among two or more subregions;
- Identification of trade barriers to inter-subregional trade, including tariff barriers;
- Formulation of measures and mechanisms to facilitater inter-subregional trade;
- Harmonization of subregional integration schemes, including trade liberalization schemes;
- Strengthening and/or establishment of supporting institutions.

  Resources required: US$75 000

IX Conclusions

40. It cannot be overemphasized that the African countries will find it hard to develop without the support provided by the intra-African trade project. Therefore, assistance has to be provided in the strengthening of their institutions especially those listed above. Moreover, technical advisory services and other assistance must also be given to these institutions in connexion with studies related to the harmonization of trade and liberalization programmes. Finally, the project concludes that it would be a matter of great concern that at a time when the project has aroused so much interest and was beginning to bear fruit it should be terminated due to lack of resources. Therefore, unless new funds are available to continue the project, most of the activities which have been initiated over the past seven to eight years in intra-African trade cannot be sustained within the resources currently available with the ECA secretariat. In fact all the activities which have already been initiated towards the establishment of an African Common Market and eventually an African Economic Community by the year 2000 as required under the Lagos Plan of Action are already in serious jeopardy.

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EFFECTS OF FLUCTUATIONS IN THE EXCHANGE RATES OF THE MAIN INTERVENTION CURRENCIES ON AFRICAN ECONOMIES

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INTRODUCTION

1. The movements in exchange rates which have taken place since the 1970s have caused considerable concern because of their possible impact on the African economies. This concern was justified by the fact that, in the matter of exchange rates, it is the action taken by the main industrial countries that has the strongest impact on the operation of the international monetary system as a whole. Not only are these countries at the very heart of the world's basic commercial transactions but also their currencies dominate the international financial markets and the movements of currencies.

2. In the face of exchange rate fluctuations, especially of the five currencies which today determine the value of SDR, the Seventh Conference of African Ministers of Trade requested the secretariats of OAU and ECA to undertake an in-depth study aimed at evaluating the impact of fluctuations in the exchange rates of the main intervention currencies and at formulating proposals to minimize their adverse effects. This study is in response to this decision and is divided into three main parts:

I. PAST TRENDS IN THE FLUCTUATIONS OF THE EXCHANGE RATES OF THE MAIN INTERVENTION CURRENCIES;

II. EVALUATION OF THE EFFECTS OF FLUCTUATIONS IN THE MAIN INTERVENTION CURRENCIES ON THE AFRICAN ECONOMIES.

III. PROPOSALS TO MINIMIZE THE UNFAVOURABLE EFFECTS OF EXCHANGE RATE FLUCTUATIONS ON AFRICAN ECONOMIES

1. PAST TRENDS IN THE FLUCTUATIONS OF THE EXCHANGE RATES OF THE MAIN INTERVENTION CURRENCIES

A. Trends in exchange rate fluctuations

a) Remote causes the deficit in the United States balance of payments and the devaluation of the pound sterling in 1967

3. The international economic framework established at the end of the Second World War was conceived essentially as a means of encouraging a progressive movement towards a multilateral system of trade and payments. The main concern was to avoid a return to the discreminatory commercial and currency practices of the 1930s and the recourse to competitive devaluations.

4. The United States, which had not suffered from the war like the European countri's and Japan, exported capital and its expenditures abroad exceeded the surpluses appearing in the current account of its balance of payments. The United States deficits thus played a critical role in stimulating the world economy by becoming the main source of monetary reserves. This resulted from the commitment made by the United States to buy and sell monetary gold for $35 an ounce and also from the convention adopted (after Bretton Woods) whereby most of the other countries fulfilled their obligations by maintaining the parity of their currencies in terms of the United States dollar. The Central Banks thus agreed to hold an increasing proportion of their reserves in the form of dollars, confident that these could always be converted at will into gold. Thus, the growth of world reserves came to depend increasingly on the accumulation of official dollar holdings, a state of affairs which could occur only when the United States balance of payments was in deficit.

5. Between 1958 and 1961[1/] the situation changed in several significant respects. The United States balance-of-payments deficit widened considerably and there was a continuous reduction in its gold stocks, accompanied by a slow loss of confidence in the American currency. The shock of this break-up of the monetary system is to have repercussions on the African currencies in 1967 with the devaluation of the pound sterling. This devaluation was followed in Africa by Sierra Leone, the Gambia, Malawi and Mauritius (14.3 per cent), whereas the other African countries of the sterling area maintained the value of their currencies in relation to the United States dollar[2/].

6. On 9 May 1971, five members of the International Monetary Fund (IMF), the Federal Republic of Germany, the Netherlands, Austria, Belgium and Luxembourg, took a certain number of exchange measures. The German authorities informed the Fund that they would no longer maintain the exchange rates for the deutschmark within the established margins. The Netherlands authorities informed the Fund that they had found it necessary to take similar action. The same day, Austria proposed to revalue the chilling by 5.05 per cent and the dual foreign exchange market system in the Belgian-Lusembourg Economic Union was modified to discourage excessive capital inflows.[3/] On 15 August 1971, the United States Government informed the Fund that the United States no longer freely bought and sold

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1/ UNCTAD " Impact of the present international monetary situation on world trade and development (TD/140/Rev.1)

2/ See Joseph TEDAJO : "Commerce, change et regulation des economies africaines au sud du Sahara au cours des annes 80:Afrique et developpement, volume VII, no. 11[illegible], 198[illegible], pp. 60-77

3/ IMF : Annual Report, 1971, pp. 37, 38
Annual Report, 197[illegible], pp. 37, 38

gold for the settlement of international transactions. This was the end of the convertibility of the dollar and the beginning of the fluctuations in the rates of currency exchange depending on the Bretton Woods system.

b) Capital movements since August 1971

7. In the weeks following the suspension of the convertibility of the United States dollar, exchange rates fluctuated on the markets and a number of commercial and exchange measures were taken to deal with the new stiuation. Intensive work was carried out both within the Fund and among member States to determine what exchange rate relationships among major currencies would give promise of stability without recourse to restrictions and large-scale intervention in the markets.

8. On 17 and 18 December, the Ministers and Central Bank Governors of the Group of Ten met at the Smithsonian Institution in Washington[4/] and reached agreement on the realignment of their currencies.

9. The Agreement provided for a temporary regime under which members could permit their exchange rates against their intervention currencies to move within margins of 2.25 per cent either side of the parity relationship, calculated on the basis of par values or central rates (rates that might be communicated to the Fund by members temporarily not maintaining their currencies on the basis of par values). A member that maintained the rates for its currency within these margins in terms of its intervention currency could permit resulting exchange rates for its currency to fluctuate within margins of 4.5 per cent from parity, with further margins of 1 per cent in certain circumstances.

4/ IMF : Annual Report, 1972, p. 38.

10. The provisions of the Washington Agreement ceased to be effective in March 1973. Since then, member countries have adopted a whole range of exchange regimes in the light of their particular situations and needs. Even where the major intervention currencies continued to follow the exchange regime in force up to early 1973, a number of changes took place. The most important change was the generalized adoption in 1974 of floating exchange rates, institutionalized by the Jamaica Agreement of January 1976 and the second amendment to the IMF Articles of Agreement[5/].

B. The adoption of the floating exchange rate

(a) Floating exchange

11. With the adoption of the floating exchange system, the practices may be roughly classified as follows:

(i) Independent floating;
(ii) Pegging to a single currency;
(iii) Pegging to a composite (or basket) of currencies (including the SDR);
(iv) Pegging to a single currency, with frequent changes in the peg, according to a predetermined formula;
(v) Joint floating under mutual intervention arrangements.

5/ "La nouvelle donne monetaire internationale", Les Cahiers Francais, No. 177, July-September, 1976.

12. Certain countries with a rapid rate of inflation continued the practice, adopted prior to 1973, of changing the peg for their currency at frequent intervals in the light of movements in their domestic prices relative to those abroad. One country, France, departed from the mutual intervention arrangements, known as the "snake", and floated independently for a time, although it resumed participation in those arrangements on 10 July 1975[6/]. From this time, the African countries chose to peg their exchange rates to one or several currencies. Hence they fall into categories (ii), (iii) and (iv) above, as can be seen from table II. Thus as at 30 June 1980:

- 11 currencies were pegged to the SDR;
- 14 currencies were pegged to the French franc;
- 9 currencies were pegged to the United States dollar;
- 6 currencies were pegged to a composite of other currencies;
- 1 currency was pegged to the pound sterling;
- 1 currency was pegged to the Spanish peseta;
- 1 currencies were pegged to the South African rand;
- 7 currencies were not pegged.

13. The majority of the African countries maintained a fixed link with the currency in which they traditionally intervene in the exchange market. This is the case of the franc-zone countries. This arrangement has the advantage of administrative simplicity, since it involves no more than a continuation of existing practice in the exchange market. It avoids the process of continuous decision-making that would be necessary under a system of managed floating. In addition, it ensures that trade denominated in the intervention currency is conducted at a stable exchange rate. Whenever a number of countries use the same intervention currency as a peg, there is the further consequence of a stable cross rate between these countries.

6/ IMF : Annual Report, p. 23

14. There can, however, be other consequences for smaller countries in pegging to a single currency. The most important is that movements in their exchange rate will be dominated by factors affecting the exchange rate of their partner currency, which may not necessarily coincide with their own adjustment needs or with considerations of domestic demand management. The African economies have unfortunate experience of this phenomenon.

15. In recent years price fluctuations have had a more serious effect on the depreciation of the terms of trade, particularly on the level of African trade. Furthermore, the high and variable rates of inflation registered in the major industrialized countries in recent years have resulted in substantial increases in import prices, thus worsening the trade balances of the dependent African economies.

16. In the African countries, these upsets not only contribute to inflation but, because of their fluctuating nature, impede development strategy. The increase in exchange rate fluctuations has also caused problems of portfolio and debt management in the African countries nearly all of which hold their external reserves in the major floating currencies. These questions alone bring out the need for a study on the effects of fluctuations in the main intervention cureencies on the African economies.

II. EVALUATION OF THE EFFECTS OF FLUCTUATIONS IN THE MAIN INTERVENTION CURRENCIES ON THE AFRICAN ECONOMIES

17. The effects of fluctuations in the exchange rates of the main intervention currencies on the African economies are many and varied. But the most important effects are those which concern trade and international capitalmovements, whether the national currency is pegged or not. If the currency is pegged, the economic conditions in the metropolitan countries concerned

determine the effective value of the pegged currency in relation to other currencies.[7/] Trade outside the pegged zone induces the trading countries to adopt exchange positions incompatible with a policy of monetary stability and even to take more or less strict exchange control measures which often have adverse effects on their balance of payments.

A. Effects of exchange rate fluctuations on the level of trade and production of the African countries

(a) Effects on the trade balance and on price levels

18. Whereas the effects of exchange rates on domestic prices are relatively straightforward, their effects on external trade vary, depending on the period considered. Over the short term, any variation in the exchange rate has an adverse effect because it worsens the trade deficit of countries whose currency depreciates and increases the surplus of those countries whose currency appreciates. This phenomenon is derived from the trend in relative prices (maintenance of export prices and variation in import prices), while the volume traded does not react immediately and exhibits a certain inertia (see J curve in annex I).

19. After a certain time (one year to 18 months) (see illustrated example of the J curve in annex I), the movement is reversed. The volumes traded end up by reacting to the domestic price fluctuations in the different countries to differing extents, depending on the products. The demand for raw materials is usually more rigid, while the export and import prices of manufactured goods tend to converge for each product. Since

7/ See the paper submitted by the African Centre for Monetary Studies to the symposium on the role of commercial banks and consular offices in the effective operation of a clearing house. Kinshasha, 23-24 July 1981.

African external contracts are based on foreign currencies and fluctuations in the exchange rates of the intervention currency or currencies are subject to short-term uncertainties, the risks of importers and exporters, who, in nearly all the African countries do not enjoy forward market facilities, are greatly increased.

(i) Effects on the level of imports

20. Exchange rate fluctuations have had the most rapid effects on the level and composition of imports. We may take as an example, Burundi[8/] a country whose currency is pegged to the United States dollar. The weightend cost of Burundi's imports increased by 7.3 per cent in 1978 and by 3.8 per cent in 1979. The increase in 1980 was only 0.46 per cent. Over the period 1978-1980, import costs went up 4.8 per cent. The African countries as a whole are in a similar position, The variations in their real rates weighted by imports rose by about 35 per cent from February 1977 to March 1981.[9/] We may cite 14 African countries whose currencies are pegged to the French franc. The monthly percentage variations weighted by imports rose from 0.71 (February 1977 - February 1979) to 1.14 per cent (March 1979 - March 1981), an increase of 61 per cent[10/]. For the 11 African countries pegged to a composite of other currencies, the exchange fluctuations weighted by imports rose from 3.6 per cent in 1977-79 to 4.19 per cent in 1979-1981, an increase of 16 per cent.

8/ Banque de la Republique du Burundi : Rapport Annuel, 1980.

9/ The African Centre for Monetary Studies : L'impact du systeme monetaire europeen sur les pays africains, p. 22.

10/ These percentages are taken from the African Centre study mentioned above.

21. The African countries produce hardly any capital goods. Any increase in their rate of capital formation generally means an increase in their import demand for such goods. And as long as the exchange rates of the major intervention currencies continue to fluctuate, the African countries cannot prevent the ensuing changes in the prices of their imports in national currency.

22. Moreover, any system of floating exchange rates gives rise to other uncertainties which cannot be eliminated or attenuated by governmental systems of exchange control. Firstly, since importers of priority items generally fear a change which may be harmful for them, they may cover themselves by increasing their forward purchases. Secondly, since the central banks responsible for the management of international reserves may buy foreign exchange at times when fluctuations are favourable to them, they may attenuate some of the uncertainties linked with the rise in the costs of foreign currency needed for imports. At this level the African countries can organize forward exchange markets. This would be all the more beneficial for Africa because, as a whole, it has many diversified sources of supply, as shown in table II.

(ii) Effects on the level of export earnings

23. Fluctuations in the exchange rates of the major intervention currencies may have an adverse effect on export earnings and may harm the economies of African exporting countries in two ways. Firstly, they will cause fluctuations in the earnings of the State and of other economic undertakings and hence in domestic consumer expenditure or external purchasing power, which in turn will effect the imports available for consumption and investment. Producers of primary commodities for the export sector, unless assisted by the State, will suffer from the effects of exchange rate fluctuations in the buyer markets.

In addition to the difficulties faced by such producers, there will be socially unacceptable inequalities in the distribution of income. When the producers adapt their expenditure to the fluctuations in their earnings, these variations in turn have repercussions on income and expenditure in other branches of the domestic economy. Thus, when export earnings decline, national income declines also. This reduces consumer expenditure and makes private investment less attractive. Most African exports are directed towards the major floating currencies. Hence their export earnings are affected to the same extent as the currencies of payment. We may quote again the case of Burundi 93.5 per cent of whose exports are paid for in United States dollars. Exchange rate fluctuations have had little impact on the nominal value of export earnings. In 1978-1980 this impact was 0.76 per cent: in 1978 0.80 per cent; and in 1980 only 0.29 per cent.11/

24. (b) Effects on the price system

The exchange rate is a price. Any change in the exchange rate tends to change price relationships. In other words, it tends to change the relationship between the prices of the same product in two countries and the terms of trade between products and factors in these two countries.12/

25. Thus, any variation in the exchange rate will have a direct impact on the import prices of a country expressed in national currency. Except for America, this impact is immediate on commodity prices which are fixed in dollars worldwide. Suppose a franc-zone country buys a barrel of oil at 32 per cent. This price corresponds to 6460 CFA if the dollar is worth 200 FCFA, to 8000 FCFA if it is 250, and to 9600 FCFA if it is 300. The effects on the prices of manufactured goods may seem less pronounced to the extent that foreign suppliers fix their prices more freely. But the general trend is the same. The

11/ Banque de la Republique du Burundi · op cit.

12/ Mr. Bye : Relations economiques internationales, 2nd Ed., DALLOZ, 1965, p. 431.

growing costs of intermediate products used in the manufacture of end goods or of the intermediate products themselves are passed on to the final consumers. Import price fluctuations take the form of a rise in terms of national currency when it depreciates and a decline when it appreciates. These fluctuations in turn affect domestic prices. The direct impact is proportional to the import share of GDP and is heightened by indirect and consequential effects derived from psychological factors or price indexing arrangements.

(c) Effects on tax revenue

26. Exchange rate fluctuations also have repercussions on other markets. All prices follow in the wake of the highest prices because of the dislocations caused in the national economy. The whole price system becomes engulfed in an upward surge. The wage-price spiral boosts demand and retail prices are pushed higher. Governments increase taxation in order to balance the budget, thus adding to business costs. As if by contagion, the whole price system spirals upward.

27. Of course, there is resistance to this movement. Concerned about its social repercussions, Governements try to hold it back by strict price controls or flexible tax legislation. But their action has only a breaking effect on the general upsurge. It also complicates the task of capital formation and distorts the structues of production.

B. Effects on capital formation and the structure of production

28. Clearly, the most controversial effects of exchange rate fluctuations are on capital formation and production structures. Experience has shown that such fluctuations influence capital formation by their impact on comparative price structures. By affecting the comparative prices of goods imported from sources

other than the pegged zone, the fluctuations will have a direct impact on the prices of capital goods in national currency as compared with the prices of goods imported from the country of origin whose currency is used as the peg. This situation may help to determine the structure of consumption and investment in the national economy as a whole.

29. The African countries' acute vulnerability to exchange rate fluctuations must be seen as one reason for their low level of capital formation. Primary-producing countries with less developed industrial sectors must struggle to survive. They cannot adapt their system of production to abrupt changes in their export earnings and import prices. Their resources are not diversified enough for such a rapid and over-all adjustment.

30. Their development potential is also affected by the fluctuating relationships between their commodity exports and the capital goods exported by the floating-currency countries since "worsening terms of trade mean a loss of real income and hence tend to diminish productive resources available for new capital formation" 13/ Thus, exchange rate fluctuations in the currencies closely linked with those of the African countries will affect their economic policies and impede their adjustment operations. These problems have been compounded by the sudden changes in the capital value of official foreign-currency holdings which have followed similar changes in the par values of reserve currencies and regular realignments of pegged currencies.

13/ United Nations, Department of Economic Affairs, Commodity Trade and Economic Development (E/3519, p.16)

C. Effects on international capital movements

(a) Effects on the level of foreign-currency assets

31. Over the years, the African countries have built up their currency reserves as a result of their political relations with the metropolitan powers, their adherence to determined monetary zones and their participation in trade and financial networks based on their political and monetary ties. These countries must now face the problems of fluctuations in their reserves following the official dismantling of the traditional structures based on bilateral monetary relations, the increase in exchange rate instability and the unusual weaknesses of traditional reserve instruments. Half of Africa's international reserves are held in a narrow range of currencies: the pound sterling, the French franc and the United States dollar. These are the ones which have fluctuated the most. Africa has very few reserves in deutsche marks and Japanese yen[14/], which are very stable currencies.

(b) Effects on the indebtedness of the African countries

32. Some people have maintained that exchange rate fluctuations have not greatly changed the nature and seriousness of debt management problem and the strategies currently applied to reduce to a minimum the real debt burden.[15/] Such an affirmation could be interpreted as implying that exchange rate fluctuations have caused no appreciable increase in the burden of debt servicing. This is not true. Since the indebtedness of the African countries is denominated in a number of currencies, it is difficult to assess quantitatively the impact of exchange rate fluctuations on total debt trends. Although the practice is to quote figures in

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14/ For more detail see in Project UNDP/UNCTAD/INT/75/015 the report of Professor G. K. Helleiner: The impact of the exchange rate system on the developing countries.

15/ See SR Dixon-Fyle: The management of exchange rates and payments in Africa under conditions of generalized floating of major currencies (E/CN.14/WP.1/92).

United States dollars, African debt is in fact denominated in dollars (50 per cent), deutsche mark (less than 10 per cent) and Japanese yen (4 per cent)[16/] Exchange rate fluctuations therefore have complex repercussions on outstanding debt, the cost of debt servicing and the value of reserves.

III PROPOSALS TO MINIMIZE THE UNFAVOURABLE EFFECTS OF EXCHANGE RATE FLUCTUATIONS ON AFRICAN ECONOMIES

33. As pointed out earlier, changes in the value of the main intervention currencies affect international trade and disrupt the economic and financial policies of dependent economies. To cope with the uncertainties resulting from the fluctuation of major currencies, national, regional and inter-national policies and agencies will have to be instituted to secure African countries some degree of monetary stability.

A. Measures to be taken at the national level

(a) Establishment of forward exchange markets

34. Exchange mechanisms already exist for settling (spot) cash transactions. Almost all African countries have exchange market organizations with advanced methods of settling currency transactions. Within such markets, banks provide a wide range of facilities and use brokers to effect transactions spanning a relatively wide spectrum of currencies. However, the best exchange mechanism would be a forward exchange arrangement operating somewhat like an insurance scheme for which importers and exporters would pay a token premium. This would doubtless be the best way of eliminating, in the short term, the uncertainty that fluctuating currency values have created in commercial transactions. It is up to each country to determine its forward exchange needs on the basis of its market and exchange structures.

16/ OECD: 1973 Review, p. 70.

35. Some general arguments made in favour of establishing forward exchange mechanisms are that:

(i) They help to protect trade flows from the vagaries of fluctuating exchange rates. The snag, however, is that price fluctuations can become even greater impediments to trade than exchange rate fluctuations;

(ii) They also help central banks to conduct a more accurate appraisal of foreign exchange needs. Advance information of foreign currency transactions taking place on the market enables central banks more effectively to manage national foreign exchange reserves and investment portfolios.

36. All things being equal, the pace of a country's development depends largely on its importation of essential capital goods. But then again, a number of difficulties arise which have to do with excessive import costs and frequent delivery delays. It might then be in the national interest to set up a forward exchange mechanism to cover exchange risks, if nothing more. The forward exchange facilities available on international markets are not of much practical use when it comes to covering the exchange risk between the currency of a developing country and the major currencies in which its trade is financed.

(b) Proper management of external debt

37. Owing to the uncertainty surrounding medium and short-term fluctuations of exchange rates and the growing pressure to manage their external debts more actively and flexibly. This might mean adopting a repayment policy aimed at keeping absolute and relative charges payable in foreign exchange as low as possible. In this way, the risks of

losing foreign exchange on capital transfers would be minimized. Three proposals might be worth considering in this connection.

(i) The entire or a substantial amount of the current external public debt together with all new debt and repayment undertakings should be denominated in SDRs and not in several currencies or current US dollars. Expressing debt and debt servicing payments in SDRs would reduce the uncertainty occasioned by fluctuating rates as to the actual cost of the debt. In the event, a comparatively accurate assessment of repayment costs would be obtained along with a more reliable indicator of the impact that loans and other forms of assistance would have on the payments balance of lender and borrower countries alike. Then again, SDR units of account are less susceptible to depreciation than national currencies.

(ii) The second proposal would be to incorporate provisions specifying how additional foreign exchange costs arising from parity adjustments and inordinately shifting parities are to be borne. Under negotiable terms, loans would be repaid in the lender's currency and the debtor's currency at the time the debt was contracted or the loan disbursed, so long as the going rate between the two currencies is less favourable to the borrower country. To keep lender countries from construing possible exchange losses as largesse on their part, the difference might be paid in the currency of the borrower country.

(iii) The third proposal, as recommended by the Lagos Plan of Action, would be to set up an African mutual debt service guarantee Fund that might be managed by the African Development Bank or the African Monetary Fund being established to assist the most disadvantaged countries of the region, in particular the LDCs. Modalities for subscription to the Fund may be worked out from the conclusions of feasibility studies to be conducted. Contributions to finance such studies, which are generally expensive, may be collected from regional development funding agencies (in the circumstances the African Development Bank) or from oil-exporting African countries that happen to have surplus funds.

B. Measures to be taken at the regional level

(a) Establishment of commercial exchanges and of forward goods markets

38. It has been pointed out that the changing values of the main intervention currencies affect international trade in several ways. International exchanges are hampered and not all risks can be covered by forward exchange operations. So frequent have exchange fluctuations become that they eat deeply into the trade profits of African countries whose foreign trade accounts for a sizeable percentage of GNP, they dimming their hopes for a better future.

39. Commercial exchange and forward goods markets might be considered one measure for protecting African countries from the effects of fluctuating exchange rates on foreign trade and guaranteeing the stability of export earnings.

40. The role of both institutions would be to absorb the shocks of fluctuating exchange rates in the short term and of cyclical price fluctuations. By playing on the laws of the market, commercial exchanges would set initial basis prices at levels which, from demand trends and projections, appeared realistic. Obviously, the margins of uncertainty would be very wide but the forward markets would correct them.

41. Basic prices, whatever their set level, might also soon lose their relevance for several reasons. The basic price might cease to reflect general price trends either because the exchange might buy on a bear's market more than it can sell on a bull's market or sell on a bull's market more than it can buy on a bear's market. Another reason could be that international consumer cartels or groupings might collectively boycott the products traded by the African commodity exchange. Such a situation should serve as a signal for changing basic prices after due negotiations have been concluded in a commodity agreement.

42. Commodity exchanges and forward exchange markets would protect African producers from price risks and allow investors to determine the viability of their projects and how they would fare in future. In this light, the operation of African commodity exchanges and forward exchange markets would make for improvement of stock management policies.

43. The system would be financed by producer countries and the African Development Bank. No exact indication of the capital outlay appears possible because the amount involved would depend on a number of factors such as initial costs, range of price fluctuations and basic price-related adjustments. Feasibility studies should be speedily undertaken to determine the conditions under which such an institution could be made viable enough to serve as an intermediary protecting the African producer from the effects of price fluctuations and providing the foreign consumer with regular, reliable and stable supplies.

(b) Establishment of multinational marketing enterprises in Africa

41. It should be noted that the stabilization of export earnings through the marketing of African products by African commodity exchanges and forward exchange markets alone will not be enough to protect the earnings of producers and exporting countries from the effects that exchange rate fluctuations have on prices. It would be useful to set up another institution to deal with the export marketing of products not traded through the commodity exchange and the import of products on the international market. Such an institution might be called a "multinational marketing enterprise" and would be responsible for securing supplies for its member countries at minimum cost and marketing commodities not traded on the exchange. It could conclude with foreign exporters and importers arrangements under which the major foreign exporters would undertake to supply African markets with specific items at negotiated prices. African importers would buy these items at reasonable prices.

45. Such an arrangement would have several advantages. It would serve as mutual insurance policy protecting, in principle, the interests of both exporters and improters. Industrialists would have their order books regularly full while speculation on trade flows would be minimized. Feasibility studies could be conducted on the financing, operation and viability of the institution, in the interest of producers and consumers alike.

C. Measures to be taken at the international level

Reform of the international monetary system

46. Africa's current monetary situation is one result of the collapse of the Bretton Woods fixed exchange rate system that gave way to a system characterized by unstable major currencies in which speculation disrupts industrialized by unstable major currencies in which speculation disrupts industralized economies and goes on to marignalized and shatter African economies. To bring Africa out of this situation and enable it to participate fully in the formulation of international monetary policy, the system will have to be reformed.

47. The international monetary system will have to be reformed to meet the needs of developing countries in general and of African countries in particular. Its structural deficienceis will also have to be remedied in line with the Libreville Memorandum so that it can better sustain the development of the world economy and for that matter, the development of African economies.

48. The reformed system would have to provide a sure and sound footing for the payments systems of developing countries in general and of African countries in particular. If should provide financing for international commodity reserves and keep the stabilized prices of such commodities free from the monetary erosion that affects the value of national currencies.

49. It is precisely towards this objective that the effort being made to establish the African Monetary Fund are directed.

CONCLUSION

50. The effects of the fluctuating exchange rates considered compound each other in various ways and many be felt sooner or later in time. The diverse consequences enumerated may thus have short, medium or long-term implications.

51. While the most immediate consequences are easiest to foresee, they are also without doubt, the least significant. The longer the period involved, the more significant the effects of fluctuation and the more difficult they are to identify for what they are because of the interplay of other factors. In the long-term, the fluctuation of major intervention currencies may have a decisive influence on African economies, influenced as these are by the international monetary system as a whole. The implications of exchange rate fluctuations can therefore be isolated only temporarily from general trends in the system.

52. The measures proposed mainly concern the stabilization of export earnings for commodities vulnerable to such fluctuations. The peculiar circumstances of demand for and supply of these commodities, coupled with the attendant shifts in speculation on and the uncertainties of the international market, significantly affect the foreign exchange earnings of African economies. It is precisely to solve such problems that the establishment of a commodity exchange would be welcome.

53. Since the monetary disarray created by the various fluctuations has been accompanied by high inflation in the industrialized countries, principally because of the devalued dollar and excess international liquidity, African countries also had to pay higher prices for their purchases abroad. These conditions might partly be stabilized through a radical reform of the international monetary system and the establishment, in Africa, of multinational marketing enterprises.

54. The other measures advocated, for the national level especially, involve the provision of services and not the establishment of institutions. They are certainly an important contribution to Africa's search for economic and monetary stability. However, this contribution should be orchestrated with other efforts that the international community is, or will be making.

Table 1: AVERAGE DAILY % CHANGES IN SELECTED CURRENCY

	197			
	1st quarter	2nd quarter	3rd quarter	4th quarter
FRANCE	0.25	0.15	0.27	0.17
FEDERAL REPUBLIC OF GERMANY	0.26	0.13	0.20	0.22
JAPAN	0.10	0.11	0.16	0.15
UNITED KINGDOM	0.24	0.46	0.28	0.55

Source: UNDP/UNCTAD Project INT/75/015
Report to the Group of Twenty-four.

RATES AGAINST THE U.S. DOLLAR, 1975 - 1978

1977				1978		
1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter
0.11	0.05	0.21	0.24	0.59	0.26	0.46
0.22	0.14	0.29	0.42	0.56	0.33	0.52
0.21	0.26	0.18	0.30	0.32	0.48	0.62
0.13	0.02	0.06	0.36	0.47	0.27	0.46

Table 2: EXCHANGE RATE PRACTICES OF AFRICAN COUNTRIES AS OF 30 JUNE 1980 AND PRINCIPAL TRADING PARTNERS, 1977 (CONTINUED)

	IMPORTS		EXPORTS		
	Major Sources		Major Destinations	Share %	Imports As % of GNP
Pegging to SDR					
Guinea	U.K.	16.2	Norway	24.8	N.A.
Guinea Bissou	Portugal	39.9	Portugal	59.0	N.A.
Kenya	U.K.	17.9	F.R.Germany	17.6	30.0
Malawi	South Africa	37.	U.K.	44.8	33.0
Mauritius	U.K.	15.1	U.K.	61.7	64.0
Sao-Tome and Principe	Portugal	61.1	Netherlands	51.7	N.A.
Seychelles	U.K.	27.0	Pakistan	57.6	N.A.
Sierra Leone	U.K.	1.5	U.K.	61.3	37
Uganda	Kenya	8.9	U.S.A.	48.4	4
Zaire	Belenux	15.4	Benelux	21.9	40.0
Zambia	U.K.	4.1	Japan	16.3	38
Pegging to Basket					
Algeria	France	24.0	U.S.A.	51.8	36
Cape Verde	Portugal	58.3	Portugal	6.8	N.A.
Mauritania	France	50.0	U.K.	15.3	44
Morocco	France	27.5	France	24.7	39.0
Tanzania	U.K.	13.4	F.R.Germany	14.9	25
Tunisia	France	28.1	France	17.9	41
Other					
Ghana	U.K.	16.5	U.S.A.	16.7	17
Nigeria	U.K.	1.0	U.S.A.	41.	7€

Source : Year Book of National Accounts Statistics, quoted by G. K. Helleiwer in Project INT/75/015, p.53

Table 3 : SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OF AFRICAN COUNTRIES AS PERCENTAGE OF EXPORTS OF GOODS AND SERVICES, 1970 - 1980

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Algeria	3.2	5.8	11.8	10.-	12.7	8.7	13.0	15.3	19.4	25.6	23.9
Benin	3.2	4.0	3.3	1.9	4.8	3.6	3.7	1.9	3.3	5.1	2.5
Botswana	2.7	2.3	1.8	4.6	3.7	3.1	1.5	1.8	1.4	1.6	1.6
Burundi	2.3	2.6	6.6	2.5	3.7	5.6	4.4	2.9	3.5	3.1	3.1
Cameroon	3.1	4.4	4.8	4.7	4.3	5.3	5.4	5.3	7.4	9.5	N.A
Central Republic of Africa	3.2	3.0	1.4	4.6	5.1	7.9	4.1	4.7	2.6	0.1	4.5
Chad	3.9	8.5	5.0	3.5	3.3	5.9	4.1	10.0	11.8	14.4	N.A.
Comoros	..	0.1	0.0	0.1	1.1	4.6	5.7	7.0	10.8	N.A	
Congo	8.4	8.5	8.7	8.8	6.8	10.7	8.4	10.5	7.3	4.6	9.4
Egypt	28.7	28.8	31.1	40.2	21.7	22.5	18.5	24.2	22.3	15.8	18.9
Ethiopia	11.3	10.3	8.7	6.4	5.4	7.5	6.4	5.9	6.5	4.9	5.4
Gabon	5.5	7.-	7.1	14.1	4.1	5.5	6.7	9.5	10.5	17.0	15.1
Gambia	0.7	0.9	1.0	1.1	0.8	0.6	0.6	0.5	0.8	0.4	N.A.
Ghana	4.9	7.1	3.-	3.6	3.7	5.8	6.-	3.6	4.7	4.5	6.0
Guinea	8.7	29.-	31.1	29.9	16.6	14.8	15.0	19.0	10.0	2.-	24.6
Upper-Volta	3.9	4.0	.9	3.3	2.8	3.5	3.0	3.-	3.8	3.8	6.9
Ivory-Coast	6.7	7.6	8.1	7.-	7.9	8.8	8.8	10.4	13.0	15.-	11.6
Kenya	5.5	8.1	6.0	5.5	4.7	4.5	5.9	4.8	8.1	7.5	8.9
Lesotho	9.6	6.7	3.8	3.-	2.1	3.4	4.4	3.3	1.9	0.6	N.A.
Liberia	7.-	6.6	6.1	5.3	4.9	5.5	4.-	6.0	5.8	13.6	7.0
Madagascar	3.5	4.3	3.5	5.3	3.6	3.0	3.7	3.-	3.3	3.9	N.A.
Malawi	7.0	7.7	7.4	7.4	7.6	7.7	7.3	5.-	9.8	9.4	18.4
Mali	1.8	1.-	1.3	5.8	2.3	3.-	2.8	3.8	7.1	8.5	N.A.
Mauritania	3.-	3.6	10.-	9.0	6.6	10.7	37.8	20.4	16.3	3.-	11.5
Mauritius	3.7	4.-	1.6	1.3	0.8	1.6	1.0	1.6	2.4	3.7	5.5
Marocco	7.7	10.-	9.5	8.3	5.5	5.7	7.-	10.8	18.7	21.8	18.0
Niger	3.8	3.0	2.6	2.0	1.8	4.6	4.4	4.2	2.7	3.6	5.7
Nigeria	4.1	3.0	2.8	4.0	1.7	2.7	3.4	0.8	1.-	1.5	2.0
Rwanda	1.3	1.8	2.1	0.7	0.8	0.6	0.8	0.9	1.4	0.9	1.1
Senegal	2.4	5.0	3.9	7.9	5.4	5.4	5.7	6.1	13.7	13.7	N.D.
Sierra Leone	10.0	7.3	8.0	8.7	8.5	10.3	15.6	10.6	18.-	22.3	N.D.
Somalia	2.0	2.3	2.9	3.6	4.2	3.4	2.6	3.6	3.1	1.3	3.5
Sudan	10.9	11.9	13.8	11.9	14.2	21.7	14.1	7.6	9.5	33.6	17.4
Swaziland	4.7	5.2	10.1	9.5	2.3	1.6	0.8	0.9	1.6	2.0	2.2
Togo	2.9	3.9	6.4	6.9	3.4	9.8	6.7	11.4	14.5	24.4	34.0
Tunisia	17.1	14.8	15.2	10.6	6.7	6.9	7.0	9.5	10.9	11.8	11.8
Uganda	3.2	4.0	4.0	8.5	4.5	3.7	2.9	3.0	2.2	7.4	11.9
Tanzania	7.3	8.1	13.4	8.6	6.6	7.4	6.6	7.2	7.4	7.4	7.3
Zaire	4.2	4.9	8.0	6.5	10.4	15.1	7.5	8.3	8.2	9.1	N.D.
Zambia	5.4	10.0	12.9	30.9	7.3	10.2	10.2	18.7	20.8	19.7	24.4
All these countries together	6.3	6.7	7.3	8.0	5.6	7.0	6.8	7.2	8.7	10.9	11.3

Source : World Bank, Annual reports, 1978 to 1981

Table 4 : NOMINAL AND EFFECTIVE EXCHANGE RATES FOR SELECTED CONVERTIBLE CURRENCIES

		Deutsche Mark	French Franc	Japanes Yen	Pound Sterling	Swiss Franc	U.S. Dollars
		Exchange rates against the U.S. dollar[a/]					
1979	Third quarter	148.1	104.5	134.9	98.9	168.3	
	Fourth quarter	149.1	106.6	123.8	100.1	163.4	
1980	First quarter	126.7	104.5	118.9	97.5	140.9	
	Second quarter	139.9	104.9	136.4	106.3	159.2	
	Third quarter	135.8	102.1	139.9	107.5	156.6	
	Fourth quarter	125.6	94.9	146.2	107.4	146.6	
1981	First quarter	117.1	86.5	140.7	101.0	135.0	
	Second quarter	107.9	75.0	131.4	87.4	127.2	
	Third quarter	105.9	77.0	127.5	81.0	130.6	
	Fourth quarter	109.1	74.6	135.0	85.9	143.7	
		Effective exchange rates[b/]					
1979	Third quarter	127.5	93.0	130.3	91.2	145.7	97.8
	Fourth quarter	131.8	95.4	119.0	98.5	147.6	94.3
1980	First quarter	131.8	95.6	116.5	98.4	145.1	94.5
	Second quarter	129.5	94.8	123.1	94.6	143.8	94.5
	Third quarter	129.4	95.1	128.5	96.6	145.5	93.0
	Fourth quarter	124.3	91.9	137.9	100.1	142.2	94.5
1981	First quarter	119.9	88.0	146.7	101.8	135.1	98.6
	Second quarter	118.2	84.5	143.1	97.8	134.0	105.5
	Third quarter	116.5	83.8	140.3	90.5	136.0	111.2
	Fourth quarter	117.5	83.1	141.7	89.7	151.5	107.4

Source: International Monetary Fund, International Financial Statistics.

a/ End of period.

b/ Period average; as defined and calculated by International Monetary Fund, International Financial Statistics.

The J-Curve[1/]

The term 'J-curve' refers to the shape of the adjustment path frequently followed by the trade balance of countries in response to an exchange rate devaluation. The initial impact of a depreciation is often negative because import prices rise more rapidly in local currency than export prices, and there has not been time for the volume of trade to adjust. After a lag, however, the trade balance improves with a reduction in the rate of growth of imports, a parallel rise in the rate of growth of exports, and a reduction in the gap between the price indices of imports and exports. As a result of these factors there is an initial decline in the trade balance, but this adverse movement will be first checked and reversed, leading the trade balance to follow the rising portion of the 'J'.

The chart illustrates the cumulative quarterly effects of a 10 per cent devaluation in the exchange rate of a country on the unit values and volumes of its exports and imports and on its trade balance over a period of three years. The following arbitrary assumptions are made: (1) export unit values in local currency respond to the devaluation at a rate of 1.5 per cent per quarter over a period of four quarters and thereafter at a rate of 0.75 per cent, adding to 8 per cent three years after the devaluation. (2) Import unit values in local currency respond at a rate of 7 per cent in the first quarter following the devaluation and at a rate of 3 per cent in the second, reflecting a complete pass-through after two quarters. (3) After half a year the volumes of both exports and imports begin to respond at a rate of 1 per cent per quarter with the cumulative response extending over two and a half years and adding to 10 per cent three years after the devaluation.

ILLUSTRATIVE CALCULATION OF "J" CURVE: PRI

(IN BILLIONS

Quarters	IMPORTS			
	Assumed rate of change in import prices (cumulative per cent)	Assumed rate of change in import volume (Cumulative per cent	Value of imports (L/C units)1/	
Base quarter	--	--	64.8	
I	7.0	0	69.4	
II	10.0	0	71.3	
III	10.0	-1	70.6	
IV	10.0	-2	69.9	
I	10.0	-3	69.1	
II	10.0	-4	68.4	
III	10.0	-5	67.7	
IV	10.0	-6	67.0	
I	10.0	-7	66.3	
II	10.0	-8	65.6	
III	10.0	-9	64.9	
IV	10.0	-10	64.	

1/ Local currency units.

F AND VOLUME EFFECTS OF A 10 PER CENT DEPRECIATION
F LOCAL CURRENCY UNITS)

EXPORTS			
sumed rate change in ort prices rmulative r cent	Assumed rate of change in export volume (Cumulative per cent	Value of exports (L/C units) 1/	Trade balance (L/C units) 1/
-	-	6 .1	-3.7
1.5	0	63.0	-6.4
3.0	0	63.9	-7.3
4.5	1	65.5	-5.1
6.0	2	67.1	
6. 5	3	67.9	-1.3
6.50	4	68.8	+0.5
6.75	5	69.6	+1.9
7.00	6	70.2	+3.1
7. 5	7	71.	+4.9
7.50	8	7 .1	+6.5
7.75	9	7 .6	+8.0
8.00	10	73.0	+9.6

E/ECA/DWU/TAC.2/9
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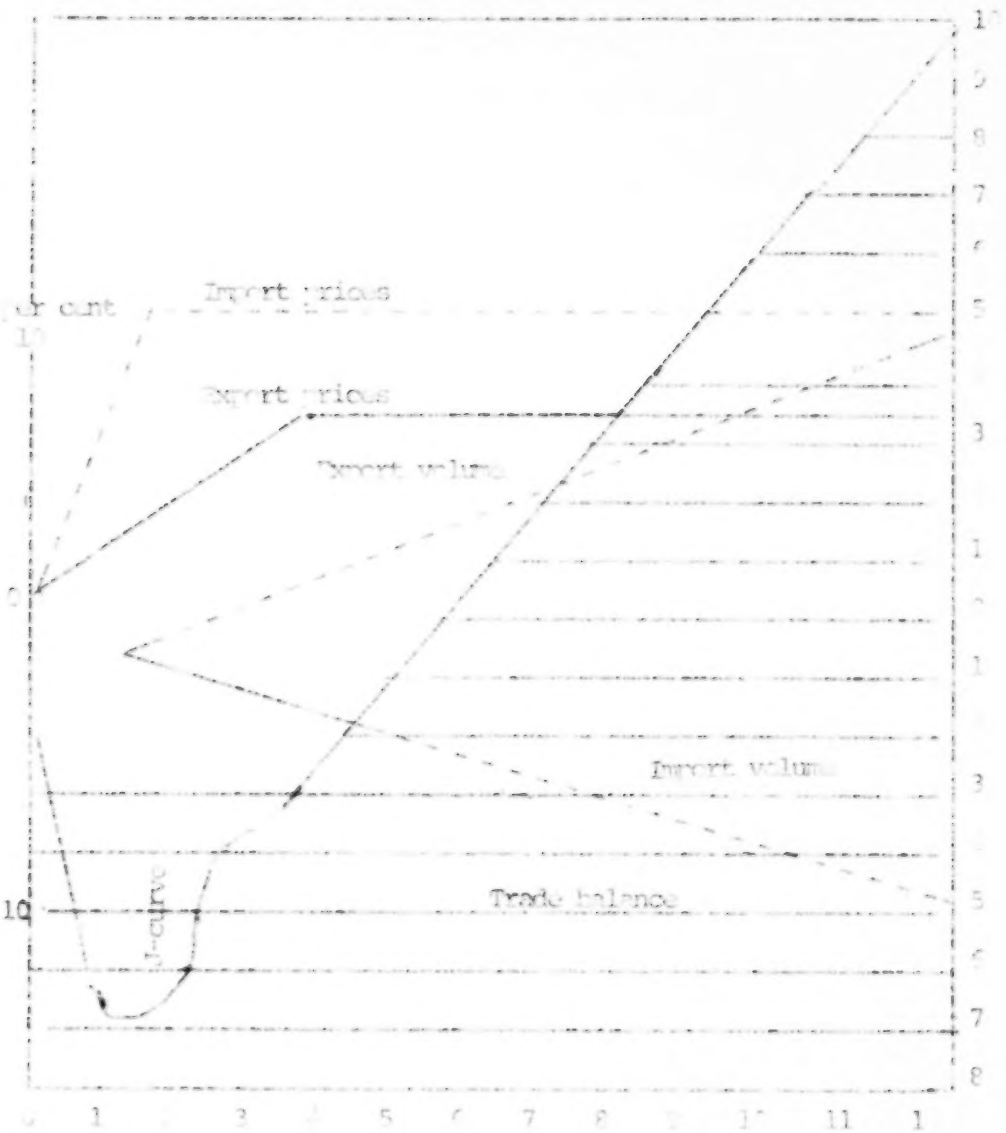
J-curve: an illustration of the effects of a
1 per cent depreciation on the trade balance



1/ The price and volume effects of the depreciation are shown as cumulative quarterly per cent changes (left scale). The price and volume effects of the depreciation on the trade balance are expressed in units of local currency at an annual rate (right scale).